



**City Council & Public Improvement Corporation  
Joint Special Meeting  
Monday, May 2, 2022  
5:00 PM  
Council Chamber & Virtual  
**Amended Agenda****

*Amended agenda items appear in red below.*

Pursuant to [AB 361](#) Palo Alto City Council meetings will be held as “hybrid” meetings with the option to attend by teleconference/video conference or in person. To maximize public safety while still maintaining transparency and public access, members of the public can choose to participate from home or attend in person. Information on how the public may observe and participate in the meeting is located at the end of the agenda. Masks are strongly encouraged if attending in person.

## **HOW TO PARTICIPATE**

### **VIRTUAL PARTICIPATION**

**[CLICK HERE TO JOIN](https://cityofpaloalto.zoom.us/j/362027238)** (<https://cityofpaloalto.zoom.us/j/362027238>)

**Meeting ID: 362 027 238 Phone: 1(669)900-6833**

The meeting will be broadcast on Cable TV Channel 26, live on YouTube at <https://www.youtube.com/c/cityofpaloalto>, and streamed to Midpen Media Center at <https://midpenmedia.org>.

### **TIME ESTIMATES**

Time estimates are provided as part of the Council's effort to manage its time at Council meetings. **Listed times are estimates only and are subject to change at any time, including while the meeting is in progress.** The Council reserves the right to use more or less time on any item, to change the order of items and/or to continue items to another meeting. Particular items may be heard before or after the time estimated on the agenda. This may occur in order to best manage the time at a meeting or to adapt to the participation of the public.

### **PUBLIC COMMENTS**

Public Comments will be accepted both in person and via Zoom meeting. All requests to speak will be taken until 5 minutes after the staff's presentation. Written public comments can be submitted in advance to [city.council@cityofpaloalto.org](mailto:city.council@cityofpaloalto.org) and will be provided to the Council and available for inspection on the City's website. Please clearly indicate which agenda item you are referencing in your email subject line.

### **CALL TO ORDER**

### **CLOSED SESSION (5:00 - 6:30 PM)**

*Public Comments: Members of the public may speak to the Closed Session item(s); three minutes per speaker.*

1. CONFERENCE WITH CITY ATTORNEY-POTENTIAL LITIGATION  
Subject: Threatened litigation regarding interpretation and application

**Public Letters**



of non-conforming use provisions for 340 Portage and associated addresses, as set forth in September 10, 2021 letter from Sobrato Organization Authority: Potential Exposure to Litigation Under Government Code Section 54956.9(d)(2)  
One Case, as Defendant

SPECIAL ORDER OF THE DAY (6:30 - 6:35 PM)

2. Appointment of Candidates for the Parks and Recreation Commission

RECESS FOR COUNCIL MEETING AND CALL TO ORDER PUBLIC IMPROVEMENT CORPORATION (6:35-6:45 PM)

3. Approval of Fiscal Year 2021 Palo Alto Public Improvement Corporation's Annual Financial Statement

ADJOURN PUBLIC IMPROVEMENT CORPORATION AND RECONVENE COUNCIL MEETING

STUDY SESSION (6:45 - 8:15 PM)

4. Fiscal Year 2023 Proposed Budget Study Session *Late Packet Report*

**Presentation**

AGENDA CHANGES, ADDITIONS AND DELETIONS

PUBLIC COMMENT (8:15 - 8:30 PM)

*Members of the public may speak to any item NOT on the agenda. Council reserves the right to limit the duration of Oral Communications period to 30 minutes.*

CONSENT CALENDAR (8:30 - 8:35 PM)

*Items will be voted on in one motion unless removed from the calendar by three Council Members.*

5. Approve Minutes from the April 11, 2022 City Council Meeting
6. Policy and Services Committee recommends that the City Council accept the recommendations from the September 14, 2021 and February 8, 2022 committee meetings regarding race and equity, with the following change: schedule a City Council Action Item (May 9, 2022) on whether to pursue a misdemeanor ordinance and other methods to deter hateful speech while complying with the constitution
7. Parks and Recreation Commission Recommend Adopting an Ordinance to Amend the Foothills Nature Preserve Attendance Range to 400-600 Guests

**Public Letters**



Q&A

8. PUBLIC HEARING: Adoption of an Ordinance Amending Palo Alto Municipal Code (PAMC) Title 18 (Zoning), Chapters 18.04 (Definitions), 18.16 (Neighborhood, Community, and Service Commercial (CN, CC and CS) Districts), 18.18 (Downtown Commercial (CD) Districts) and 18.30 (A) and (C) the Retail and Ground Floor Combining Districts. Environmental Review: Exempt Under California Environmental Quality Act (CEQA) Guidelines Section 15061(b)(3) until December 16, 2022.
9. Approval of Contract No. C22183462 with Macias Gini & O'Connell LLP (MGO) for External Financial Audit Services in an Amount Not to Exceed \$599,319 (Including a 10 Percent Contingency Additional Services Amount of \$54,934) Through March 31, 2025.
10. Policy and Services Committee Recommends the City Council Accept the City Auditor's Quarterly Status Report (Q2 of Fiscal Year 2021)
11. SECOND READING: Adoption of an Ordinance Amending Existing Palo Alto Municipal Code Chapter 5.30, Disposable Foodware Items and Other Disposable Products, to Comply with California Assembly Bill 1276 (Single-Use Foodware Accessories and Standard Condiments) Requiring Additional Restrictions on the Use of Disposable Foodware and Condiments (FIRST READING: April 18, 2022: PASSED 7-0)

#### CITY MANAGER COMMENTS (8:35 - 8:50 PM)

#### **Presentation**

#### BREAK (8:50 - 9:00 PM)

#### ACTION ITEMS

*Include: Reports of Committees/Commissions, Ordinances and Resolutions, Public Hearings, Reports of Officials, Unfinished Business and Council Matters.*

12. Adoption of a Resolution Authorizing the Issuance and Sale of One or More Series of General Obligation Refunding (Refinancing) Bonds (Election of 2008) in an Aggregate Principal Amount Not to Exceed \$58 million, and Execution of a Paying Agency Agreement, and Certain Other Related Documents and Authorizing Official Actions Related Thereto (9:00 – 9:15 PM)
13. Policy and Services Committee Recommends that the City Council Direct Staff to Reduce the Length of the Community Survey and Work with the Chair of the Policy & Services Committee as an Ad Hoc (9:15 – 9:30PM)
14. Clarification of In-Person Attendance Protocols for Council Committees and Boards and Commissions (Continued from April 4, 2022 Meeting)(9:30 – 10:00 PM)



## COUNCIL MEMBER QUESTIONS, COMMENTS, ANNOUNCEMENTS

*Members of the public may not speak to the item(s)*

### CLOSED SESSION (10:00 – 10:30 PM)

15. CONFERENCE WITH REAL PROPERTY NEGOTIATORS Authority: Government Code Section 54956.8 Property: 300 Homer Avenue, Assessors Parcel Number 120-17-093 Negotiating Party: Palo Alto Museum City Negotiators: Ed Shikada, Kiley Nose Subject of Potential Negotiations: lease Price and Terms of Payment

### ADJOURNMENT

### INFORMATION REPORTS

*Information reports are provided for informational purposes only to the Council and the public but are not listed for action during this meeting's agenda.*

16. Informational Report on Two Developments on International Shipments of Palo Alto's Recyclable Materials
17. Sales Tax Digest Summary Calendar 2021 Q4
18. Investment Activity Report for the Third Quarter, Fiscal Year 2022

### OTHER INFORMATION

Standing Committee Meetings

Finance Committee May 3, 2022

Public Letters to Council

Schedule of Meetings



## **PUBLIC COMMENT INSTRUCTIONS**

Members of the Public may provide public comments to teleconference meetings via email, teleconference, or by phone.

- 1. Written public comments** may be submitted by email to [city.council@cityofpaloalto.org](mailto:city.council@cityofpaloalto.org).
- 2. Spoken public comments using a computer** will be accepted through the teleconference meeting. To address the Council, click on the link below to access a Zoom-based meeting. Please read the following instructions carefully.
  - A. You may download the Zoom client or connect to the meeting in-browser. If using your browser, make sure you are using a current, up-to-date browser: Chrome 30+, Firefox 27+, Microsoft Edge 12+, Safari 7+. Certain functionality may be disabled in older browsers including Internet Explorer.
  - B. You may be asked to enter an email address and name. We request that you identify yourself by name as this will be visible online and will be used to notify you that it is your turn to speak.
  - C. When you wish to speak on an Agenda Item, click on "raise hand." The Clerk will activate and unmute speakers in turn. Speakers will be notified shortly before they are called to speak.
  - D. When called, please limit your remarks to the time limit allotted.
  - E. A timer will be shown on the computer to help keep track of your comments.
- 3. Spoken public comments using a smart phone** will be accepted through the teleconference meeting. To address the Council, download the Zoom application onto your phone from the Apple App Store or Google Play Store and enter the Meeting ID below. Please follow the instructions B-E above.
- 4. Spoken public comments using a phone** use the telephone number listed below. When you wish to speak on an agenda item hit \*9 on your phone so we know that you wish to speak. You will be asked to provide your first and last name before addressing the Council. You will be advised how long you have to speak. When called please limit your remarks to the agenda item and time limit allotted.

[CLICK HERE TO JOIN](#) **Meeting ID: 362 027 238    Phone:1(669)900-6833**





**City of Palo Alto**  
**Office of the City Clerk**  
**City Council CAO Report**

**(ID # 14332)**

**Meeting Date: 5/2/2022**

**Report Type: Special Orders of the Day**

**Title: Appointment of Candidates for the Parks and Recreation Commission**

**From: Lesley Milton, City Clerk**

**Recommendation**

Staff recommends City Council vote to appoint candidates to the following position on the Parks and Recreation Commission:

- One (1) position with a term ending on March 31, 2023.

*\*\*A majority vote (4 yes's) is required to appoint each applicant.*

**Background**

Boards and Commissions are established as advisory bodies to the City Council, made up of community volunteers that provide essential feedback on matters of importance to the community. The City Clerk's office advertises and recruits for vacancies, the Council considers the applications, interviews desired candidates, and makes recommendations for appointment for the open positions.

On December 13, 2021, City Council appointed Parks and Recreation Commissioner Keith Reckdahl to the Planning and Transportation Commission. As such, the current vacancy staff is requesting to be filled is:

- One (1) position on the Parks and Recreation Commission, with term expiring March 31, 2023

For the Parks and Recreation Commission special recruitment effort, The City received a total of 5 qualified applications; 2 new applications were submitted during the 2022 recruitment period and 3 applications were from the previous Fall recruitment.

**Interviews**

At the April 11, 2022 City Council meeting, the Council elected to interview



all 5 applicants received ([04-11 PRC Recruitment Report](#)). Interviews will be conducted on April 25, 2022 at approximately 5:30 PM as a special City Council meeting. Video recordings of the interviews will be made available on our [City of Palo Alto YouTube Channel](#) for the public and Council Members who are unable to attend.

All applications received for these positions can be accessed online ([All PRC Applications](#)). City Council will incorporate all interviews into the final selection.

### **Membership Requirements**

Per PAMC [2.25.010](#), The Parks and Recreation Commission requires each member of the commission to have Palo Alto residency and demonstrated interest in parks, open space and recreation matters.

### **Parks and Recreation Commission: One position**

Term ending March 31, 2023

- Palo Alto Residency
- Each member of the Commission shall have a demonstrated interest in parks, open space and recreation matters.
- NEWLY RECEIVED APPLICANTS:
  1. Lester Ezrati
  2. Jason Schmidt
- PREVIOUSLY RECEIVED APPLICANTS:
  3. Joy Oche
  4. Mark Weiss
  5. Eve Klein

### **Public Outreach**

Palo Alto Municipal Code 2.16.060 requires public notification regarding vacancies of the Commissions as follows, "The City Clerk shall exercise their discretion in choosing the method of advertisement that will most effectively reach potential candidates." Based on the September 14, 2021 Policy & Services Committee meeting report ([available here](#)) regarding Board and Commission Member demographics and community representation the City Clerk's office expanded recruitment efforts through additional means to "most effectively reach potential candidates".

The Fall 2021 Boards and Commission recruitment invited applications from September 16, 2021 through October 26, 2021 through the new online application process. From that previous recruitment, 3 unselected applicants of the 15 confirmed their continued interest for the vacancy.

The Parks and Recreation Commission special recruitment invited applications from March 14, 2022 through April 4, 2022. The vacancy was advertised through various methods in partnership with the Communications team. This included paid and digital print advertisements



in the Daily Post; via the City's website and social media channels; in physical locations of the Palo Alto Libraries and Community Centers; and distributed by e-mail and through the City subscription-based notification lists.





**City of Palo Alto**  
**Public Improvement Corporation**  
**Staff Report**

**(ID # 14317)**

**Meeting Date: 5/2/2022**

**Report Type: Public Improvement Corp. Board**

**Title: Approval of Fiscal Year 2021 Palo Alto Public Improvement Corporation's Annual Financial Statement**

**From: City Manager**

**Lead Department: Administrative Services**

**Recommendation**

Staff recommends that the Board of Directors of the Palo Alto Public Improvement Corporation (PIC) approve the Fiscal Year (FY) 2021 Annual Financial Report for the Palo Alto Public Improvement Corporation.

**Background**

The PIC is a nonprofit corporation formed by the City in 1983, allowing the City to issue Certificates of Participation (COPs) to fund capital improvements. The PIC, through a lease structure, finances the acquisition, improvement, and construction of City facilities. The PIC uses the lease payments by the City's General Fund to pay the debt service on the COPs. On July 13, 1998, Council adopted a resolution establishing itself as the Board of Directors of the PIC. The bylaws of the PIC require the Board of Directors of the Corporation to meet at least annually and approve the annual financial report for the Corporation. Therefore, the City Council is required to meet annually as the Board of the PIC.

In 1983 and 1998, the City of Palo Alto issued COPs to fund improvements to the Civic Center and the Golf Course, respectively. In 2002, the Civic Center bonds were refinanced due to a lower interest rate environment and COPs were issued to finance the construction of commercial space adjacent to the new parking structure on Bryant/Florence Street. These bonds (referred to as the Downtown Parking Improvement bonds or 2002B COP) were used to build a two story above-ground structure of approximately 7,638 square feet which was leased to a commercial tenant (Form Fitness Gym).

In fiscal year 2018, the City issued the 2018 Capital Improvement Project and Refinancing COPs in the amount of \$9 million to refinance the 2002B COPs (\$0.6 million) and to finance renovations for the Palo Alto Municipal Golf Course (\$8.4 million). Fire Station 1 was used as the leased property and collateral for these COPs since it had a market value closer to the COPs issuance amount. Besides the net present value savings of \$0.2 million or 6.47 percent on the 2002B refunded bonds, an added benefit was to substitute the Civic Center with Fire Station 1



as the leased property/collateral. This provides flexibility to leverage the high value of the Civic Center to finance future infrastructure COPs bond issuance (e.g. Public Safety building COPs).

In fiscal year 2019, the City issued the California Avenue Parking Garage Tax-exempt Series A (\$26.8 million plus \$4.9 million premium) and Taxable Series B (\$10.6 million) COPs. These bonds were issued to fund the construction of the new California Avenue parking garage. Rinconada Library was used as collateral during the garage construction and, upon completion of the garage, the newly build California Avenue Parking garage became the leased property/collateral for these COPs. Since this garage is open, the substitute in collateral to the garage is being done. To preserve greater operational flexibility to use this garage facility over the life of the bonds (e.g. lease portion of the garage for private parking or other commercial use), a portion of the bonds were issued as taxable bonds.

In fiscal year 2021, the City issued the 2021 Public Safety Building tax-exempt COPs (\$101.5 million plus \$6.5 million premium) for the construction of the City's new public safety building. 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. Civic Center was used as collateral during the building construction and, upon completion of the building, the newly build Public Safety Building will become the leased property/collateral for these COPs.

The reserve account requirement was waived on all the outstanding COPs due to the City being a highly rated bond issuer. This resulted in additional interest savings and cost of bond issuance amount.

### Discussion

The attached financial statement shows the financial condition of the PIC. The debt service payments have been made on time and all financial requirements have been met. At year-end, June 30, 2021, total outstanding debt principal on the COPs equaled \$146.5 million as follows:

<b>COPs Description</b>	<b>Principal Outstanding (millions)</b>	<b>Fiscal Year Debt will be Retired</b>
2018 Capital Improvement (2002B Refinance and Golf Course)	\$ 8.6	2048
2019 California Ave. Parking Garage	\$ 36.4	2049
2021 Public Safety Building	\$101.5	2051
<b>Total COPs</b>	<b>\$146.5</b>	

Staff recommends that the Board of Directors of the Palo Alto Public Improvement Corporation (PIC) approve the FY 2021 financial statement for the PIC.



**Stakeholder Engagement**

Staff works internally and coordinates with the City Auditor's Office third party external auditor Macias Gini & O'Connell LLP (MGO) to prepare this report.

**Resource Impact**

Approval of the Palo Alto Public Improvement Corporation's financial statements will have no resource impact.

**Policy Implications**

Approval of the Palo Alto Public Improvement Corporation's financial statements is consistent with prior Council policy direction and resolutions.

**Environmental Review**

Approval of the annual PIC financial statement is not a project, as defined in Section 21065 of the California Environmental Quality Act (CEQA).

**Attachments:**

- **Attachment3.a:** Attachment A: FY 2021 PIC Annual Financial Statement



**PALO ALTO PUBLIC IMPROVEMENT  
CORPORATION  
(A Component Unit of the  
City of Palo Alto, California)**

Annual Financial Report

For the Year Ended June 30, 2021



Certified  
Public  
Accountants



**PALO ALTO PUBLIC IMPROVEMENT CORPORATION**  
**(A Component Unit of the City of Palo Alto, California)**  
 Annual Financial Report  
 For the Year Ended June 30, 2021

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities and the major fund of Palo Alto Public Improvement Corporation (Corporation), a component unit of the City of Palo Alto, California (City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Corporation as of June 30, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



***Other Matters******Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Walnut Creek, California  
November 15, 2021



**PALO ALTO PUBLIC IMPROVEMENT CORPORATION**  
**(A Component Unit of the City of Palo Alto, California)**  
 Management's Discussion & Analysis (Unaudited)  
 For the Year Ended June 30, 2021

The Palo Alto Public Improvement Corporation (Corporation), a component unit of the City of Palo Alto (City), follows the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Corporation is controlled by the City and was organized to assist the City in financing public improvements. The Corporation issues debt and turns the proceeds of the debt over to the City under lease agreements that provide a revenue source for the repayment of this debt. The Corporation has three outstanding debts and has turned over the proceeds to the City, which pledged certain lease payments as collateral for this debt as discussed in Note 4 to the financial statements.

### **FINANCIAL HIGHLIGHTS**

GASB Statement No. 34 requires the issuance of government-wide financial statements as well as fund financial statements. The government-wide financial statements report the balance of the Corporation's long-term debt while the individual fund statements do not.

In fiscal year 2018, the City issued 2018 Capital Improvement Project and Refinancing Certificates of Participation (2018 COPs) in the amount of \$9.0 million to refinance the 2002B Downtown Parking Improvements Certificates of Participation remaining balance of \$805 thousand, and also to fund the Palo Alto Municipal Golf Course renovations.

In fiscal year 2019, the City issued the 2019 California Avenue Parking Garage tax exempt Series A and taxable Series B Certificates of Participation (2019A and 2019B COPs) in the amount of \$26.8 million plus \$4.9 million premium, and \$10.6 million, respectively. The 2019A and 2019B COPs are issued to fund the construction of the new California Avenue parking garage.

In fiscal year 2021, the City issued the 2021 Public Safety Building Certificates of Participation (2021 COPs) in the amount of \$101.5 million plus \$6.5 million premium. The 2021 COPs are issued to fund the construction of the new public safety building.

As of June 30, 2021, the Corporation has the following outstanding debt: the 2018 COPs, 2019A and 2019B COPs, and 2021 COPs

At the government-wide level, the interest and fiscal agent charges were \$4.0 million for fiscal year 2021, an increase of \$2.0 million from the prior year. The interest on leases from the City of Palo Alto was \$8.6 million, an increase of \$6.6 million from the prior year. The increases of interest and fiscal charges and interest on leases are due to the issuance of the 2021 COPs during the year which lead to the increase of outstanding bonds and incurrence of one-time costs of issuance.

The Corporation ended fiscal year 2021 with total assets of \$163.1 million, an increase of \$112.3 million from the prior year. Total assets consisted of \$4.7 million in cash and investments, \$1.1 million of lease interest receivable from the City of Palo Alto, and \$157.4 million of investment in leases to the City of Palo Alto. The total liabilities were \$158.5 million, an increase of \$107.7 million from the prior year. The increases of assets and liabilities resulted from the issuance of the 2021 COPs during the year.

At the fund level, the Corporation's expenditures exceeded revenues by \$103.4 million due to the payment of lease proceeds to the City of Palo Alto in relation to the issuance of 2021 COPS during the year. As of June 30, 2021, the Corporation had one fund, the Debt Service Fund, which reported a \$4.7 million restricted fund balance.



**PALO ALTO PUBLIC IMPROVEMENT CORPORATION**  
**(A Component Unit of the City of Palo Alto, California)**  
 Management's Discussion & Analysis (Unaudited) (Continued)  
 For the Year Ended June 30, 2021

## **OVERVIEW OF THE CORPORATION'S BASIC FINANCIAL STATEMENTS**

The annual financial report is comprised of two parts:

- 1) Management's discussion and analysis (this part),
- 2) The basic financial statements, which include the government-wide and the fund financial statements, along with the notes to these financial statements.

The basic financial statements comprise the government-wide financial statements and the fund financial statements. These two sets of financial statements provide two different views of the Corporation's financial activities and financial positions, both short-term and long-term.

The government-wide financial statements provide a long-term view of the Corporation's activities as a whole, and comprise the statement of net position and the statement of activities. The statement of net position provides information about the financial position of the Corporation as a whole, including all its long-term liabilities on the full accrual basis, similar to that used by corporations. The statement of activities provides information about all the Corporation's revenues and expenses on the full accrual basis, with the emphasis on measuring net revenues or expenses of the Corporation's program. The statement of activities explains in detail the change in net position for the year.

The fund financial statements report the Corporation's operations in more detail than the corporate-wide statements and focus primarily on the short-term activities of the debt service fund. Fund financial statements measure only current revenues and expenditures; current assets, liabilities and fund balances; and they exclude capital assets and long-term debt.

Together, these statements along with the notes to the financial statements are called the basic financial statements.

## **DEBT ADMINISTRATION**

The Corporation issues debt in the form of Certificates of Participation (COPs) to be repaid from future lease receipts from the City. Legally, these COPs issues are the Corporation's debt only; the City is liable only for the payment of the amounts set forth in the lease securing each debt issue.

As of June 30, 2021, the Corporation has the following outstanding debt: 2018 COPs, 2019A and 2019B COPs, and 2021 COPs with outstanding principal balances of \$8.6 million, 36.4 million and \$101.5 million, respectively.

## **ECONOMIC OUTLOOK AND MAJOR INITIATIVES**

The economy of the City and its major initiatives for the coming year are discussed in detail in the City's Comprehensive Annual Financial Report.

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

These Basic Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Corporation's finances. Questions about these financial statements should be directed to the Finance Department of the City of Palo Alto, 250 Hamilton Avenue, Palo Alto, CA 94301.



**PALO ALTO PUBLIC IMPROVEMENT CORPORATION**  
**(A Component Unit of the City of Palo Alto)**  
Statement of Net Position  
June 30, 2021

**Assets**

Cash held for operations	\$ 5,597
Cash and investments held by trustee	4,655,285
Lease interest receivable	1,057,878
Investment in leases to the City of Palo Alto	<u>157,403,773</u>
Total assets	<u>163,122,533</u>

**Liabilities**

Interest payable	1,057,878
Long-term debt:	
Due in one year	1,243,353
Due in more than one year	<u>156,160,420</u>
Total liabilities	<u>158,461,651</u>

**Net Position**

Restricted for debt service	<u><u>\$ 4,660,882</u></u>
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**PALO ALTO PUBLIC IMPROVEMENT CORPORATION**  
**(A Component Unit of the City of Palo Alto)**  
Statement of Activities  
For the Year Ended June 30, 2021

**Expenses**

Interest and fiscal agent charges	\$	3,962,421
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**Program revenues**

Interest on leases from the City of Palo Alto		8,585,169
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Net program revenues		4,622,748
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**General revenues**

Investment earnings		56
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Change in net position		4,622,804
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Net position, beginning of the year		38,078
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Net position, end of the year	\$	4,660,882
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**PALO ALTO PUBLIC IMPROVEMENT CORPORATION**  
**(A Component Unit of the City of Palo Alto)**

Balance Sheet  
Debt Service Fund  
June 30, 2021

**Assets**

Cash held for operations	\$ 5,597
Cash and investments held by trustee	4,655,285
Lease interest receivable	1,057,878
Investment in leases to City of Palo Alto	157,403,773
Total assets	<u>\$ 163,122,533</u>

**Deferred Inflows of Resources**

Unavailable lease receipts from the City of Palo Alto	\$ 158,461,651
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**Fund balance**

Restricted for debt service	<u>4,660,882</u>
Total deferred inflows of resources and fund balance	<u>\$ 163,122,533</u>

**Reconciliation of fund balance to net position**

Fund balance restricted for debt service	\$ 4,660,882
Long-term receivables are not available to pay for current period expenditures and are considered unavailable on the governmental fund balance sheet	158,461,651
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the Fund:	
Interest payable	(1,057,878)
Long-term debt due within one year	(1,243,353)
Long-term debt due in more than one year	<u>(156,160,420)</u>
Net position of governmental activities	<u>\$ 4,660,882</u>



**PALO ALTO PUBLIC IMPROVEMENT CORPORATION**  
**(A Component Unit of the City of Palo Alto)**  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Debt Service Fund  
For the Year Ended June 30, 2021

## Revenues:

Lease receipts from the City of Palo Alto:

Principal	\$ 815,000
Interest	2,093,576
Others	1,588
Investments earnings	56
Total revenues	<u>2,910,220</u>

## Expenditures:

Intergovernmental disbursement to the City of Palo Alto	102,000,000
Debt service:	
Principal repayment	815,000
Interest and fiscal agent charges	2,093,576
Costs of issuance	1,408,212
Total expenditures	<u>106,316,788</u>

Deficiency of revenues under expenditures (103,406,568)

## Other Financing Sources:

Issuance of bonds	101,505,000
Bond premium	6,524,372
Total other financing sources	<u>108,029,372</u>

Net change in fund balance 4,622,804

Fund balance, beginning of the year 38,078

Fund balance, end of the year \$ 4,660,882

**Reconciliation of net change in fund balance to change in net position**

Net change in fund balance - debt service fund \$ 4,622,804

Amounts reported for governmental activities in the statement of activities are different because:

Repayment of bond principal is an expenditure in the governmental funds, but in the statement of net position the repayment reduces long-term liabilities. 815,000

Interest accrued on long-term debt and amortization of bond premium do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in interest payable (707,124)

Amortization of bond premium 246,491

The issuance of bonds are reported as other financing sources in governmental funds and thus contribute to the change in fund balances. However, bonds issuance change long-term liabilities in the statement of net position and do not affect the statement of activities.

Issuance of bonds (101,505,000)

Bonds premium (6,524,372)

Some amounts reported in the statement of revenues, expenditures and changes in fund balances reflect the timing of collection of assets which are not includable as revenues on the statement of activities.

Lease receipt for bond principal repayment (815,000)

Lease receipt for interest payment 707,124

Intergovernmental disbursement to the City of Palo Alto 102,000,000

Lease proceeds from new bond issuance 6,029,372

Impact of bond premium amortization on lease receipt (246,491)

Change in net position of governmental activities \$ 4,622,804

See accompanying notes to financial statements.

Attachment A - 10



Attachment A  
**PALO ALTO PUBLIC IMPROVEMENT CORPORATION**  
**(A Component Unit of the City of Palo Alto, California)**  
 Notes to the Basic Financial Statements  
 For the Year Ended June 30, 2021

**NOTE 1 – DESCRIPTION OF REPORTING ENTITY**

The Palo Alto Public Improvement Corporation (the Corporation) was incorporated in September 1983 under the General Nonprofit Corporation Law of the State of California to acquire, construct and lease capital improvement projects. The Corporation is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code. The Corporation provides financing of public capital improvements for the City through the issuance of Certificates of Participation (COPs), a form of debt which allows investors to participate in a stream of future lease payments. Proceeds from the COPs are used to construct projects which are leased to the City for lease payments which are sufficient in timing and amount to meet the debt service requirements of the COPs.

The Corporation is an integral part of the City of Palo Alto, California (City). It primarily services the City and its governing body is composed of the City Council. Therefore, the financial data of the Corporation has also been included as a blended component unit within the City's comprehensive annual financial report for the year ended June 30, 2021.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Presentation**

**Government-wide Statements:** The statement of net position and the statement of activities include the financial activities of the Corporation. Eliminations have been made to minimize the double counting of internal activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Corporation's 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 of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including investment earnings, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the Corporation's funds. The emphasis of fund financial statements is on major individual funds, of which the Corporation only reports one debt service fund.

**(b) Major Fund**

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures equal to ten percent of their fund-type total and five percent of the grand total. The Corporation has one fund which is reported as a major governmental fund in the accompanying financial statements as follows:

**Debt Service Fund** – This fund accounts for debt service payments on the Corporation's long-term debt.



Attachment A  
**PALO ALTO PUBLIC IMPROVEMENT CORPORATION**  
**(A Component Unit of the City of Palo Alto, California)**  
 Notes to the Basic Financial Statements (Continued)  
 For the Year Ended June 30, 2021

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(c) Basis of Accounting**

The government-wide 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 to be available if the revenues are collected within ninety days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured.

**(d) Investment in Leases**

Improvements financed by the Corporation are leased to the City for their entire estimated useful life and will become the City property at the conclusion of the lease on November 1, 2050. The Corporation therefore records the present value of the lease and considers the leased improvement to have been sold for this amount when leased.

**(e) Net Position**

The government-wide financial statements utilize a net position presentation. Net position is further categorized as net investment in capital assets, restricted and/or unrestricted. As of June 30, 2021, the entire net position was considered restricted.

*Restricted Net Position* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

**(f) Deferred Inflows of Resources**

A deferred inflow of resources is defined as an acquisition of net position or fund balances applicable to a future reporting period and will not be recognized as an inflow of resources (revenue) until that time. On the governmental fund balance sheet, the lease receipts from the City corresponding to the debt are recorded as deferred inflows of resources since the balances are not current financial resources.

**(g) Fund Balances**

At June 30, 2021, the Corporation's governmental fund's fund balances include the following classification:

*Restricted Fund Balance* – includes 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.



Attachment A  
**PALO ALTO PUBLIC IMPROVEMENT CORPORATION**  
**(A Component Unit of the City of Palo Alto, California)**  
 Notes to the Basic Financial Statements (Continued)  
 For the Year Ended June 30, 2021

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(h) Effects of New Pronouncements**

The Corporation is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following Governmental Accounting Standards Board (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 requirements of this statement are effective for the Corporation's fiscal year ending June 30, 2022.

**(i) Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 3 – CASH AND INVESTMENTS HELD BY TRUSTEE**

**(a) Interest Rate Risk**

Interest rate risk is the risk that a change in market interest rates will adversely affect the fair value of an investment. Normally, the longer it takes an investment to reach maturity, the greater will be that investment's sensitivity to changes in market rates. Information about the sensitivity of the fair values of the Corporation's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Corporation's investments by maturity:

Investment Type	Amount	Maturity Date
Money Market Mutual Fund	\$ 4,655,285	19 days

**Credit Risk**

Generally, 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. As of June 30, 2021, the Corporation's investments in money market mutual funds are rated AAAM by Standard & Poor's.

**(b) Fair Value Hierarchy**

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. The Corporation's investments in money market mutual funds are not subject to the fair value hierarchy.



Attachment A  
**PALO ALTO PUBLIC IMPROVEMENT CORPORATION**  
**(A Component Unit of the City of Palo Alto, California)**  
Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2021

**NOTE 3 – CASH AND INVESTMENTS HELD BY TRUSTEE (Continued)**

**(c) Investment Policy**

The Corporation must maintain required amounts of cash and investments by trustee under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the Corporation fails to meet its obligation under these debt issues. The California Government Code (Code) requires these funds to be invested in accordance with bond indentures or State statutes. All these funds have been invested as permitted under the Code. The Investment Policy is described in detail in the City's Annual Comprehensive Financial Report.

The table below identifies the investment types that are authorized by the City's Investment Policy. The table also identifies certain provisions of the City's Investment Policy that address interest rate risk, credit risk and concentration of credit risk.

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. Government Agency Securities	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	N/A	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 Deposit Accounts	N/A	N/A	No Limit	No Limit
Mutual Funds	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 redeemed at the call date.

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

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



**Attachment A**  
**PALO ALTO PUBLIC IMPROVEMENT CORPORATION**  
**(A Component Unit of the City of Palo Alto, California)**  
Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2021

**NOTE 4 – CERTIFICATES OF PARTICIPATION**

The Corporation's long-term debt activities are presented below:

	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021	Amount due in one year
<b>Certificates of Participation</b>					
2018 Capital Improvement Project 2.20-4.22%, due 11/1/2047	\$ 8,755,000	\$ -	\$ 185,000	\$ 8,570,000	\$ 190,000
2019 California Ave. Parking Garage Series A & B 2.5%-5%, due 11/1/2048	36,995,000	-	630,000	36,365,000	645,000
2021 Public Safety Building 2%-5%, due 11/1/2050	-	101,505,000	-	101,505,000	-
Add: Unamortized Premium	4,685,892	6,524,372	246,491	10,963,773	408,253
<b>Total</b>	<u>\$ 50,435,892</u>	<u>\$ 108,029,372</u>	<u>\$ 1,061,491</u>	<u>\$ 157,403,773</u>	<u>\$ 1,243,253</u>

On June 1, 2018, the City issued the 2018 Capital Improvement Project and Refinancing Certificates of Participation (2018 COPs) in the amount of \$9.0 million to fully refinance the 2002B COPs and to fund the renovation of the Palo Alto Municipal Golf Course. Principal payments are due annually on November 1 and interest payments semi-annually at various rates on May 1 and November 1. The 2018 COPs are secured by lease revenues received by the Corporation from any City's General Fund revenue source.

On March 21, 2019, the City issued the 2019 California Avenue Parking Garage tax exempt Series A and taxable Series B Certificates of Participation (2019A and 2019B COPs) in the amount of \$26.8 million plus \$4.9 million premium, and \$10.6 million, respectively, for the construction of the new California Avenue Parking Garage. Principal payments are due annually on November 1 and interest payments semi-annually at various rates on May 1 and November 1. The 2019A and 2019B COPs are secured by lease revenues received by the Corporation from any City's General Fund revenue source.

On March 24, 2021, the City issued the 2021 Public Safety Building Certificates of Participation (2021 COPs) in the amount of \$101.5 million plus \$6.5 million premium for the construction of the new public safety building. Principal payments are due annually on November 1 and interest payments semi-annually at various rates on May 1 and November 1. The 2021 COPs are secured by lease revenues received by the Corporation from any City's General Fund revenue source.



Attachment A  
**PALO ALTO PUBLIC IMPROVEMENT CORPORATION**  
**(A Component Unit of the City of Palo Alto, California)**  
Notes to the Basic Financial Statements (Continued)  
For the Year Ended June 30, 2021

**NOTE 4 – CERTIFICATES OF PARTICIPATION (Continued)**

Future annual debt service on the outstanding debt is shown below:

For the Year Ending June 30,	Principal	Interest Payment	Total Payment
2022	\$ 835,000	\$ 3,534,317	\$ 4,369,317
2023	860,000	4,970,244	5,830,244
2024	3,025,000	4,880,640	7,905,640
2025	3,170,000	4,729,195	7,899,195
2026	3,335,000	4,569,844	7,904,844
2027-2031	19,340,000	20,154,727	39,494,727
2032-2036	23,975,000	15,481,970	39,456,970
2037-2041	28,105,000	11,306,264	39,411,264
2042-2046	32,530,000	6,831,131	39,361,131
2047-2051	31,265,000	1,836,486	33,101,486
	\$ 146,440,000	\$ 78,294,818	\$ 224,734,818

**Events of Default and Acceleration Clauses**

Generally, the Corporation is considered to be in default if the Corporation 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 City Council Staff Report

(ID # 14333)

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**Meeting Date: 5/2/2022**

**Report Type: Study Session**

**Title: Fiscal Year 2023 Proposed Budget Study Session**

**From: City Manager**

**Lead Department: Administrative Services**

This item will present the Fiscal Year (FY) 2023 Proposed Budget and provide for discussion by the City Council regarding the FY 2023 Budget and priorities. Proposed Budget documents are expected to be released by the end of April 2022. Once released, these documents will be linked to this agenda.

Detailed discussions are scheduled to occur with the Finance Committee on May 10th and 11th, with a final wrap-up discussion scheduled May 24th. The Budget will return to Council in June for final adoption.

Late Packet Revision

The following reports have been linked on the City's Website as of Friday April 29th:

FY 2023 Proposed Capital budget

FY 2023 Proposed Operating Budget





**City of Palo Alto**  
**Office of the City Clerk**  
**City Council CAO Report**

**(ID # 14289)**

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**Meeting Date: 5/2/2022**

**Report Type: Consent Calendar**

**Title:** **Approve Minutes from the April 11, 2022 City Council Meeting**

**From:** **Lesley Milton, City Clerk**

Staff recommends Council to review and approve the minutes as presented.

**ATTACHMENTS:**

- **Attachment5.a:** Attachment A: 20220411amCCs (PDF)





# CITY COUNCIL DRAFT ACTION MINUTES

Special Meeting  
April 11, 2022

The City Council of the City of Palo Alto met on this date in the Council Chambers and by virtual teleconference at 5:02 P.M.

Present: Burt, Cormack, DuBois, Filseth, Kou, Stone, Tanaka

Absent: None

## Special Orders of the Day

1. Select Applicants to Interview for the Parks & Recreation Commission.

Public comment: None

**MOTION:** Council Member Cormack moved, seconded by mayor Burt to schedule interviews with all new applicants for one vacancy on the Parks and Recreation Commission.

**MOTION PASSED:** 7-0

## Study Session

2. Annual Earth Day Report Study Session.

## **NO ACTION TAKEN**

## Agenda Changes, Additions and Deletions

## Public Comment

## Consent Calendar



# DRAFT ACTION MINUTES

Council Member Tanaka registered a no vote on Agenda Item Number 5, 6.

**MOTION:** Mayor Burt moved, seconded by Council Member DuBois to approve Agenda Item Numbers 3-10.

3. Approval of Contract Number C22181467 with Bureau Veritas Technical Assessments LLC, for an Amount Not to Exceed \$359,779 for a City Facility Condition and Electrification Assessment and Use of Brightly Cloud-based Capital Planning Software, Capital Improvement Program Projects (PE-20002 and TE-13004) and Budget Amendments in the Electric Fund and Capital Improvement Fund.
4. Approval of the Economic Recovery Advisory Report as Recommended by the Policy and Services Committee.
5. Adoption of **Resolution 10028** Authorizing an Installment Sale Agreement with the California State Water Resource Control Board for Financing of the Design and Construction of the Secondary Treatment Upgrades Project Funded in Wastewater Treatment Enterprise Fund Capital Improvement Program, Project WQ-19001, at the Regional Water Quality Control Plant.
6. Approval of Amendment No. 1 to Professional Services Contract Number S22183902 Teri Black and Company, LLC to Increase the Not-to-Exceed Compensation by \$180,000 (to \$265,000) and to Extend the Term of the Contract to January 2024 for City Wide Executive Recruitments and Approve a Budget Amendment in the General Fund.
7. Approval of Amendment Number 4 to Contract Number C14152163 With Townsend Public Affairs for State Legislative Advocacy to Extend the Term for one Additional Year and add \$102,000 for a Total Not-to-Exceed Amount of \$901,000.
8. Easement Vacation at 14244 Amherst Court, Los Altos Hills, CA.
9. SECOND READING: Adoption of an Ordinance Dedicating 0.64 Acres of Land Adjacent to 3350 Birch Street to Become Part of the Boulware Park (FIRST READING: February 10, 2020 PASSED: 7-0).
10. SECOND READING: Adoption of an Interim Ordinance Establishing Objective Urban Lot Split Standards and Further Refinements to SB 9 Development Standards; Authorizing the Public Works Director to Publish Objective Standards Regarding Adjacent Improvements



# DRAFT ACTION MINUTES

Related to SB 9 Projects; and Direction Regarding Listing Properties Eligible for Historic Status (FIRST READING: March 21, 2022 Council Meeting, MOTION PASSED: 6-0, DuBois absent); Adoption of Resolution Approving Objective Standards for Urban Lot Splits.

## **MOTION SPLIT FOR THE PURPOSE OF VOTING**

**MOTION TO APPROVE ITEM 3, 4, 6-10 PASSED:** 7-0

**MOTION TO APPROVE ITEM 5-6 PASSED:** 6-1, Tanaka no

### City Manager Comments

Ed Shikada, City Manager

### Action Items

11. TEFRA HEARING: Regarding Conduit Financing for the Silicon Valley International School Project Located at 151 Laura Lane and 1066 East Meadow Circle, Palo Alto, and Approving the Issuance of a Tax Exempt Loan by the California Municipal Finance Authority for the Purpose of Financing and Refinancing the Acquisition, Construction, Improvement, Equipping and Maintenance of Educational, Support and Administrative Facilities Owned and Operated Within the City by Silicon Valley International School.

**MOTION:** Council Member Cormack moved, seconded by Mayor Burt to adopt a Resolution approving the issuance of the bonds by the California Municipal Finance Authority (CMFA) for the benefit of Silicon Valley International School.

**MOTION PASSED:** 7-0

12. Public Hearing: Adoption of Ordinance Clarifying Ambiguities in Height Transitions, Adding RMD to the list of Residential Districts and Amending the Setback for the RM-40 Zone District.



# DRAFT ACTION MINUTES

**MOTION:** Council Member DuBois moved, seconded by Council Member Filseth to:

- A. Approve the proposed changes to the height transitions and other development standards as included in the staff report and At Places memo as follows:

Section 9 – PC District (18.38.150):

Keep "Sites abutting or having...."

Change "...R-1, R-2, RMD, RM-20..." to "...R-1, R-2, RMD, RM..."

Remove "Abutting" where added

- B. Reinsert to Section 18.13.040 Development Standards, as listed in Table 2 Footnote 12 "...and the context-based criteria outlined in Section 18.13.160."

**MOTION APPROVED:** 6-1, Kou No

- 13. Review and Approval of Workplans for City Council Committees in 2022.

**ORIGINAL MOTION:** Council Member Filseth moved, seconded by Council Member Kou to approve the list of tentative topics and regularly scheduled work that the City Council Standing Committees of Policy and Services and Finance expect for 2022.

**PROPOSED AMENDMENT:** Motion by Council Member Cormack and seconded by Mayor Burt to add to the Policy & Services topic list a review of the Board and Commission Handbook

**MOTION PASSES:** 6-1 Tanaka no

**AMENDED MOTION:** Council Member Filseth moved, seconded by Council Member Kou to approve the list of tentative topics and regularly scheduled work that the City Council Standing Committees of Policy and Services and Finance expect for 2022 including an addition to the Policy & Services topic list a review of the Board and Commission Handbook



# DRAFT ACTION MINUTES

**MOTION PASSED:** 7-0

Council Member Questions, Comments and Announcements

Closed Session

AA1. CONFERENCE WITH CITY ATTORNEY-POTENTIAL LITIGATION Subject: February 1, 2022 letter from the Law Offices of Randal M. Barnum, representing Andrea Jordan, re allegations of harassment, discrimination and retaliation against the Cities Association and member cities Authority: Potential Exposure to Litigation Under Government Code Section 54956.9(d)(2) One Case, as Defendant.

**MOTION:** Council Member Filseth moved, seconded by Council Member Kou to go into Closed Session.

**MOTION PASSED:** 7-0

Council went into Closed Session at 9:24 P.M.

Council returned from Closed Session at 10:13 P.M.

Mayor Burt announced no reportable action.

Adjournment: The meeting was adjourned at 10:13 P.M.

ATTEST:

APPROVED:

\_\_\_\_\_  
City Clerk

\_\_\_\_\_  
Mayor

NOTE: Action minutes are prepared in accordance with Palo Alto Municipal Code (PAMC) 2.04.160(a) and (b). Summary minutes (sense) are prepared in accordance with PAMC Section 2.04.160(c). Beginning in January 2018, in accordance with [Ordinance No. 5423](#), the City Council found action minutes and the video/audio recordings of Council proceedings to be the official records of both Council and committee proceedings. These recordings are available on the City's website.





## City of Palo Alto City Council Staff Report

(ID # 14194)

Meeting Date: 5/2/2022

Report Type: Consent Calendar

**Title: Policy and Services Committee recommends that the City Council accept the recommendations from the September 14, 2021 and February 8, 2022 committee meetings regarding race and equity, with the following change: schedule a City Council Action Item (May 9, 2022) on whether to pursue a misdemeanor ordinance and other methods to deter hateful speech while complying with the constitution**

**From: City Manager**

**Lead Department: City Manager**

### Recommendation

Policy and Services Committee recommends that the City Council accept the recommendations from the September 14, 2021 and February 8, 2022 committee meetings regarding race and equity, with the following change: schedule a City Council Action Item (currently scheduled for May 9, 2022) on whether to pursue a local misdemeanor ordinance and other methods to deter hateful speech while complying with the constitution.

### Background

The Policy and Services Committee received quarterly race and equity updates in September 2021 and February 2022. At both meetings, the Committee pushed forward unanimous recommendations to the City Council related to a variety of topics. Staff expressed to the Committee that, though unanimously approved, the Committee's proposal to pursue a local hate crimes ordinance would have to go to the City Council for discussion given its impact. That item is scheduled for City Council discussion and action on May 9, 2022. The rest of the items recommended by Policy and Services are listed in this Consent Agenda staff report. Some items are already completed or in progress and those items are noted below.

At the September 14, 2021 Policy and Services Committee meeting the Committee took the following action based on discussion of [CMR #13568/Minutes](#):

*To recommend the City Council to discuss the following 5 areas of consideration; support the HRC work regarding the 100 conversations [completed], enable the HRC to further develop the idea of a misdemeanor ordinance and other method to deter hateful speech while complying with the constitution [scheduled for May 2022 City Council]; and continue the*



*City's Race and Equity Work:*

- A. *Should the notes from the Summit breakout sessions and Jamboard of Summit participants on affordable housing and the ways that it specifically affects women be referred to the City's Housing Element Working Group for consideration?* [completed]
- B. *Should the City Council initiate additional work on an ordinance addressing topics related to the United Nation's CEDAW initiative?* [in progress]
- C. *Should the City conduct a review of the City's Recreation Division in collaboration with the Park & Recreation Commission in order to better understand programs and services equity?* [in progress]
- D. *Should the City share the findings regarding youth with the City's Teen Advisory Council for consideration of further action including training on microaggressions and youth mentorship programs?* [completed]
- E. *Should the City host an annual convening through the Office of Human Services to work to address issues related to greater opportunity and equity for women and girls?*

The City Council met with the Human Relations Commission (HRC) on January 24, 2022 [CMR #13841](#) in a Study Session to hear and discuss the 100 Community Conversations.

At the February 8, 2022 Policy and Services Committee meeting the Committee took the following action based on discussion of [CMR #13997/Minutes](#):

*To recommend the City Council:*

- A. *Request the Human Relations Commission to research the lived experience of Asian American and Pacific Islanders and suggest related workplan items as desired;*
- B. *Request the Police Department to provide hate crime data over time by race;* [data below; completed]
- C. *Recommend that Council Members commit to complete Microaggression training by June 2022; and*
- D. *Request the City Manager and Mayor schedule a study session to discuss police radio encryption, and how best to allow the public and the media to be rapidly informed for calls to service* [completed].

## Discussion

As noted above, there has been progress on many of the items from the Policy and Services Committee September 2021 and February 2022 meeting discussions. The information below summarizes the items completed, in progress, and items not yet implemented. Each item references which meeting the recommendations come from.

The completed items include the following:

- Support for the HRC's 100 Community Conversations: the City Council heard the report on January 24, 2022 ([CMR #13841](#)) and commended the HRC for the initiative taken to



convene conversations on this very important topic in the community. They encouraged the HRC to continue such efforts. (P&S Sept. 14 Recommendation)

- Notes and findings from the Summit on Women and Girls were shared with the Housing Element Working Group staff as well as with the City's Youth Advisory Commission staff liaison. (P&S Sept. 14 Recommendation)
- Sharing hate crime data. This data represents 3 years of data and is included in **Attachment A** to this report. Since 2021, the Police Department included a designation in the computer aided dispatch (CAD) system that makes it easier going forward to run a hate crime data report. (P&S Sept. 14 Recommendation). \*Note, the data in Attachment A does not include hate incident information.
- Hold a City Council Study Session on police radio encryption: The City Manager scheduled an action item for the City Council on April 4, 2022 of the Police Department's annual report which also included extensive information about police radio encryption. The City Council voted at that meeting to develop programs to pursue near real time streaming of Calls for Services and to narrow location of the calls. Registration will be required to access the platform. Staff shall confer with labor on implementation of this direction; Support Senator Becker's proposed SB-1000; Increase communications between PAPD senior staff and the media, as staffing permits; and to refer to Policy and Services Committee the review and discussion of Use of Force (UOF) reports to evaluate current policies and effectiveness of the UOF reports and recommend modifications if necessary. (P&S Feb. 8 Recommendation)

The following items have been started and are in progress:

- Initiation of additional work on an ordinance addressing topics related to the United Nation's CEDAW initiative. Staff is drafting an ordinance for City Council review and discussion. (P&S Sept. 14 Recommendation)
- The HRC discussed recent hate crimes at the March 10, 2022 meeting and passed a motion to support a recommendation to bring the Federal Bureau of Investigation (FBI) and community resources to Palo Alto to support community education on hate crimes. In addition, the HRC recommends the City Council support an increase in public awareness and marketing on how to report a hate crime and hate incidents. This recommendation will be included in the May 9, 2022 City Council discussion on hate crimes. (P&S Sept. 14 Recommendation)
- Staff has begun a review of the City's Recreation Division in order to better understand programs and services equity by gender. (P&S Sept. 14 Recommendation)

The following items are not yet implemented: (Following City Council acceptance of this staff report, these items would be further developed by staff.)

- A. Alignment from the City Council for the City host an annual convening through the Office of Human Services to work to address issues related to greater opportunity and equity for women and girls (P&S Sept. 14 Recommendation)



- B. Request the Human Relations Commission to research the lived experience of Asian American and Pacific Islanders and suggest related workplan items as desired. (P&S Feb. 8 Recommendation)
- C. Recommend that Council Members commit to complete Microaggression training by June 2022. (P&S Feb. 8 Recommendation). The trainings will be conducted by *Circle Up Education*. There will be three separate trainings scheduled that the City Council and Board/Commission/Committees (BCC) will be able to choose from to attend. The trainings will take place mostly in June 2022.
- D. Scheduled for May 9, 2022 as an Action item: whether to pursue a local misdemeanor ordinance and other methods to deter hateful speech while complying with the constitution. (P&S Sept. 14 Recommendation)

### **Timeline, Resource Impact, Policy Implications**

Resource requirements for the topics and recommendations within this report vary. For the items implemented already, staff time has been expended on those. For the in progress and not yet completed items, further staff time will be required to work on and complete the items. The training is also an outside contract for less than \$15,000 which will come from the race and equity support funds. Costs for hosting an annual convening on issues related to equity for women and girls would be incorporated into annual budget discussions.

### **Stakeholder Engagement**

Community engagement is an integral part of Palo Alto's race and equity work. Engaging the community at large to provide feedback for the City's Race and Equity strategy has been a priority throughout this process as shown in the Race and Equity Framework. The City continues to engage the community through a series of Race and Equity conversations. Updates on the City's efforts can be found on the City's website at [www.cityofpaloalto.org/raceandequity](http://www.cityofpaloalto.org/raceandequity).

### **Environmental Review**

This is not a project as defined by CEQA.

### **Attachments:**

- **Attachment6.a:** Attachment A: Hate Crime Reports 2019-April 8 2022



## Hate Crime Data 2019 - April 2022

Attachment

6.a

### Hate Reports taken by PAPD Jan-Dec 2019

Case #	Occur Date	Protected Characteristics	Description
190000849	02/14/2019	protected characteristic other than race (sexual orientation) & race/ethnicity: Black	Criminal threats
190004689	08/17/2019	protected characteristic other than race (religion)	Vandalize private property
190005557	10/25/2019	protected characteristic other than race (sexual orientation) & race/ethnicity: Hispanic	Assault with a deadly weapon
190006636	12/23/2019	protected characteristic other than race (religion)	Criminal Threats

### Hate Reports taken by PAPD Jan-Dec 2020

Case #	Occur Date	Protected Characteristics	Description
200000106	01/05/2020	protected characterisic other than race (religion) & race/ethnicity: Black	Vandalize City property
200001552	04/14/2020	race/ethnicity: Black	Criminal threats
200001890	05/15/2020	race/ethnicity: Black	Brandish weapon
200002788	07/23/2020	race/ethnicity: Black	Vandalize private property

### Hate Reports taken by PAPD Jan-Dec 2021

Case #	Occur Date	Protected Characteristics	Description
210000212	01/22/2021	race/ethnicity: Middle Eastern	Assault with a deadly weapopn
210000813	03/20/2021	race/ethnicity: Black	Vandalize City property
210001344	05/07/2021	race/ethnicity: White	Vandalize City property
210002077	07/07/2021	race/ethnicity: White	Vandalize City property
210002480	08/07/2021	protected characteristic other than race (religion)	Vandalize City property
210002963	09/15/2021	race/ethnicity: Black	Vandalize City property
210003032	09/21/2021	race/ethnicity: White	Vandalize City property
210003072	09/24/2021	race/ethnicity: Black	Vandalize City property
210003267	10/10/2021	protected characteristic other than race (sexual orientation)	Battery causing serious bodily injury

### Hate Reports taken by PAPD Jan-Mar 15 2022

Case #	Occur Date	Protected Characteristics	Description
220000236	1/22/2022	race/ethnicity: Black	Vandalize private property
220001053	4/5/2022	race/ethnicity: Black	Vandalize private property
220001080	4/6 - 4/7/2022	protected characetristic other than race (nationality)	Vandalize private property

Note: Hate incident data not included within this report.





## City of Palo Alto City Council Staff Report

(ID # 14245)

Meeting Date: 5/2/2022

Report Type: Consent Calendar

**Title: Parks and Recreation Commission Recommend Adopting an Ordinance to Amend the Foothills Nature Preserve Attendance Range to 400-600 Guests**

**From: City Manager**

**Lead Department: Community Services**

### **Recommendation**

Staff and the Parks and Recreation Commission recommend that City Council adopt an ordinance amending section 22.04.150(k) of the Palo Alto Municipal Code to amend the visitor capacity range for Foothills Nature Preserve (Attachment A) and receive an update on park entry discounts and photography policies.

### **Background**

On [November 2, 2020](#), City Council passed the following motion regarding Foothills Nature Preserve ([Minutes](#)):

- A. Open Foothills Park to the general public by removing limits on non-residents, while maintaining the maximum capacity of 1,000 persons and providing residents first access to reservations for all facilities;
- B. Amend or delete outdated and duplicative code language;
- C. For the first 90 days, temporarily limit the capacity to 750 people at any one time;
- D. Return to Council and the Parks and Recreation Commission with proposals for fee, capacity, and park management/environmental integrity studies; and
- E. Direct staff to use the renaming process to consider renaming Foothills Park to Foothills Nature Preserve.

Foothills Nature Preserve opened to the general public on December 17, 2020. On January 26, 2021 ([Minutes](#)), the Parks and Recreation Commission (PRC) discussed several items related to Foothills Nature Preserve that were referred to them by City Council (fees, discounts, rules, and enforcement policies). Included in this discussion was a concern that the pending ordinance and emergency ordinance scheduled for the February 1, 2021 City Council Consent Calendar (attached to [Agenda Item Number 3](#)) did not include an option for an annual pass, which could limit frequent park users from visiting the park if they must pay a daily entrance fee each time they visit. The PRC also



discussed the limitation on number of visitors allowed in the park at one time, which the emergency ordinance limited to 400 people, not to exceed a maximum of 500 people.

On February 1, 2021 ([Minutes](#)), City Council approved the ordinance and emergency ordinance for a \$6 vehicle entry fee and visitor limit of 400 people at one time, not to exceed 500 people for Foothills Nature Preserve.

On February 11, 2021, the PRC held a special meeting to discuss an annual pass option and the visitor capacity limit for Foothills Nature Preserve ([Minutes](#)). On February 22 ([Staff Report](#) and [Minutes](#)), City Council adopted an ordinance to change the name of Foothills Park to Foothills Nature Preserve, established an annual pass including several discounts and fee waivers for entry to Foothills Nature Preserve, adjusted the visitor limit to Foothills Nature Preserve, and identified groups (e.g. visitors with reservations in Towle Campground) who do not count toward the visitor limit. Staff began collecting vehicle entrance fees for weekends and holidays beginning Saturday, February 27, 2021.

On February 23, 2021 ([Minutes](#)), the PRC reviewed and discussed a range of Foothills Nature Preserve Daily/Annual Entrance Fee and Visitor Limit policy considerations. This included some policy guidelines that had been recently adopted by City Council but had not previously been commented on by the PRC. The PRC agreed to support some guidelines, while referring additional details back to the Ad Hoc Committee for additional assessment and follow-up recommendation.

On March 23, 2021 ([Staff Report](#) and [Minutes](#)), the PRC discussed several Foothills Nature Preserve policies and voted unanimously (6-0, 1 absent) to recommend that Council adopt an ordinance to amend the Municipal Fee Schedule to include several new vehicle entry fees and discounts for Foothills Nature Preserve, including new fees for medium and large vehicles/buses, free entry on six specified days per year, free passes to be distributed at libraries; and free entry for student field trips and all fourth-grade students; and direct staff to permanently remove the nine hillside BBQs at Foothills Nature Preserve to help improve fire safety.

On May 10, 2021, City Council ([Staff Report](#)) approved the Parks and Recreation Commission's March 23 recommendation.

## **Discussion**

On December 14, 2021, the PRC discussed Foothills Nature Preserve Policies ([Staff Report](#)) and passed the following motion:

The PRC recommends that City Council adopt the following policies related to Foothills Nature Preserve:

1. Continue the current practice of allowing 500 visitors at any one time and adjust the visitor limit range to allow 400 to 600 people at any one time at staff discretion;



2. Prioritize capital budget funds towards the infrastructure improvements outlined by the Infrastructure Stakeholder group and PRC review of the infrastructure plan details;
3. Maintain the existing daily use fees, standard annual passes, free entry days, free library entry passes, and free entry for pedestrians and bicycles;
4. Adopt free entry policy for select groups to simplify entrance station operations, facilitate entry fee enforcement on weekdays, and expand the list of permanent disabilities to be more inclusive:
  - A. Change the existing active military and veteran free entry policy to a free annual pass for active military and veteran policy
  - B. Change the existing student driver free entry policy to a 50% discount on an annual pass for students aged 16 to 24 and require that the student be present for entry
  - C. Expand on the existing free entry policy for vehicles with a Disabled Person Placard/License Plate to include a free annual pass for people with permanent disabilities as defined by California State Parks (developmental, hearing, speech, visual, mental, or physical disabilities);
5. Do not pursue implementation of a reservation system at this time;
6. Monitor and evaluate potential policy changes in conjunction with available staff resources, while maintaining the current policy prohibiting bicycle through access at Gate D, at this time;
7. Update the dog policy under Towle Camp rules to state: when the preserve is closed, dogs must be confined to campsites, and must be in a tent unless supervised and accompanied at night; and
8. Request that the Palo Alto Fire Department recommend actions necessary to mitigate wildfire safety concerns related to eucalyptus trees, campfires, and BBQs.

Items 1-5, 7, 8: Approved 6:0. Item 6: Approved 4:1:1 (Reckdahl—no, Moss--abstain)

The PRC and staff recommend that Council adopt an ordinance amending section 22.04.150(k) of the Palo Alto Municipal Code to amend the capacity range for Foothills Nature Preserve. The other items in the PRC motion either don't require action or may be approved by the City Manager.

#### Visitor Limit

On February 22, 2021 (Staff Report and Minutes), City Council adopted an ordinance to authorize the City Manager (or designee) to establish a capacity limit of Foothills Nature Preserve in the range of 300 people to 650 people in order to protect health safety and welfare of preserve users, to protect the natural resources in the preserve, and/or due to limits in parking, facilities, or staff availability. Staff have used 500 people (200 vehicles) at any one time as the working visitor limit since February 2021. The preserve



has not reached capacity since April 5, 2021. Park Rangers have not observed traffic or parking issues in the preserve while the 500-person limit has been in place. The PRC recommended continuing the current practice of allowing 500 visitors at any one time and adjusting the visitor limit range from 300 to 650 people to 400 to 600 people at any one time. This recommendation is based on the observation that when the visitor limit was reduced to 500 people at one time and a weekend entrance fee was implemented, preserve visitation and capacity have been noticeably more manageable. Previously observed issues with visitors going off-trail, increased traffic, and parking issues were greatly diminished. The PRC noted that continuing to allow the City Manager (or designee) flexibility to make adjustments within the range of the visitor limit would be helpful in addressing unforeseen circumstances that may impact the preserve.

The PRC recommended narrowing the visitor range because a visitor limit of fewer than 400 visitors leads to frequent and unnecessary preserve closures due to reaching capacity. Having more than 600 visitors at one time contributes to problems with traffic and parking, especially in the more popular areas of the preserve.

## **Updates Not Requiring Council Action**

### Entrance Fees and Passes

The PRC recommends three changes to the entry fees and passes:

- Change the existing active military and veteran daily free entry policy to a free annual pass for active military and veteran;
- Change the existing student driver free entry policy to a 50% discount on an annual pass for students aged 16 to 24 and require that the student be present for entry; and
- Expand on the existing free entry vehicles with a Disabled Person Placard/License Plate to include a free annual pass for people with permanent disabilities as defined by California State Parks (developmental, hearing, speech, visual, mental, or physical disabilities).

These changes are aimed at simplifying entrance station operations, reducing entrance queues, ensuring that entrance fees can be fairly enforced once weekday entry fee collection begins (targeting Summer 2022), and making the disabled free entry policy more inclusive of people with different types of disabilities.

### Active Military and Veteran Free Entry

The active military and veteran free entry would be changed to a free annual pass option. The reason is there will not be a way to enforce daily free passes on weekdays when staff are not present at the entrance station. Staff will not be able to identify active military or veteran visitors on weekdays.

### Student Driver Free Entry

The PRC wants to support and encourage youth and students to visit Foothills Nature Preserve. Unfortunately, there have been some challenges with the existing free entry



for student drivers. It has resulted in confusion for many park visitors, in particular the fact that the student needs to be driving the vehicle. It has led to a number of arguments with park visitors at the entrance station, which sometimes contributes to vehicles backed up waiting to get into the preserve. An additional challenge with the free entry for student drivers is that it will not be enforceable during weekdays when the entrance station is not staffed. Staff will not be able to identify student driven vehicles on weekdays. The PRC recommends that the student driver free entry be changed to a 50% discount on an annual pass for students aged 16 to 24 and require that the student be present for entry.

#### Vehicles with a Disabled Person Placard/License Plate Free Entry

The PRC recommends adding an additional free annual pass option for people with permanent disabilities as defined by [California State Parks](#), which has a 50% discount on their passes for people with permanent developmental, hearing, speech, visual, mental, or physical disabilities. The PRC noted that the City's existing free entry for vehicles with disabled person placard/license plate would be more inclusive if it included people with different types of disabilities. The Ad Hoc recommends modeling the program after the California State Park example.

Staff will implement these changes by amending the City's Park and Open Space Regulations and will take effect upon approval of the City Manager and 15 days notice to the City Council.

#### Open Space and Parks Photography and Film Policy

On December 14, 2021, the PRC also discussed an Open Space and Parks Photography and Film Policy ([Staff Report](#)). The Foothills Nature Preserve Ad Hoc Committee reviewed the existing film and video policies for Foothills Nature Preserve and recommended a broader consideration of policy changes which would apply to all Open Space and Parks, which was discussed on a separate agenda item from the Foothills Nature Preserve policy discussion. The PRC passed a motion recommending the adoption of an Open Space and Parks Photography and Film Policy (Attachment B), which can be approved by the City Manager.

#### **Timeline**

If City Council adopts an ordinance amending Section 22.04.150(k) of the Palo Alto Municipal Code to amend the capacity range for Foothills Nature Preserve, there would be a second reading of the ordinance at the May 16, 2022 City Council meeting. The ordinance would take effect 31 days following the second reading of the ordinance.

#### **Resource Impact**

The recommendations in this report are not anticipated to materially impact resources. The FY 2022 Municipal Fee Schedule includes a range of \$0 - \$80 for annual passes to Foothills Nature Preserve, which can accommodate the PRC's recommendations. The proposed changes to the free entry policy for select groups to simplify entrance station



operations and the expanded list of permanent disabilities that would qualify for free entry to the preserve are expected to have an insignificant impact on the preserve entrance revenue:

- a. Change the existing active military and veteran free entry policy to a free annual pass for active military and veteran policy;
- b. Change the existing student driver free entry policy to a 50% discount on an annual pass for students aged 16 to 24 and require that the student be present for entry; and
- c. Expand on the existing free entry policy for vehicles with a Disabled Person Placard/License Plate to include a free annual pass for people with permanent disabilities as defined by California State Parks (developmental, hearing, speech, visual, mental, or physical disabilities).

The FY 2022 Adopted Capital Budget includes several Foothills Nature Preserve improvement projects with funding in FY 2022 and proposed over the next several years. These projects will address infrastructure improvements at the Preserve that would help address public safety and environmental concerns due to the increased visitation (pedestrian pathway to allow visitors to avoid walking on the roadway, fencing to protect habitat, and improvements to the parking, etc.).

### **Stakeholder Engagement**

Foothills Nature Preserve policies were discussed at the following meetings:

- November 2, 2020, City Council meeting
- January 19, 2021, City Council meeting
- January 26, 2021, Parks and Recreation Commission meeting
- February 1, 2021, City Council meeting
- February 11, 2021, Parks and Recreation Commission meeting
- February 22, 2021, City Council meeting
- February 23, 2021, Parks and Recreation Commission meeting
- March 23, 2021, Parks and Recreation Commission meeting
- May 10, 2021, City Council meeting
- December 14, 2021, Parks and Recreation Commission meeting

Meeting agendas and minutes can be reviewed at <https://www.cityofpaloalto.org/City-Hall/City-Council/Council-Agendas-Minutes> (Council meetings) and <https://www.cityofpaloalto.org/City-Hall/Boards-Commissions/Parks-and-Recreation-Commission> (Commission meetings).

### **Environmental Review**

The project includes modifications to Foothills Nature Preserve that do not include any physical improvements to this existing facility, including any improvements that would generate increased use (e.g., new amenities). The project is therefore exempt from the California Environmental Quality Act (CEQA) in accordance with CEQA Guidelines



Section 15301(operation of existing facilities). Adoption of the ordinance would amend the visitor capacity range for Foothills Nature Preserve to allow 400 to 600 users at a given time. The ordinance continues to provide the City Manager with the authority to establish the total capacity at the preserve at a given time in order to protect the health, safety, and welfare of preserve users, to protect the natural resources in the preserve, and/or due to limits in parking, facilities, or staff availability. The adoption of this ordinance would not affect the normal operations of this facility and are therefore exempt from CEQA in accordance with CEQA Guidelines Section 15323.

**Attachments:**

- **Attachment7.a:** Attachment A: Ordinance Amending Section 22.04.150(k) of PAMC to Amend Capacity Range for Foothills Nature Preserve
- **Attachment7.b:** Attachment B: PRC Open Space Photography and Film Policy



Ordinance No. \_\_\_\_

Ordinance of the Council of the City of Palo Alto Amending Section 22.04.150(k)  
of the Palo Alto Municipal Code to Amend the Capacity Range for Foothills  
Nature Preserve

The Council of the City of Palo Alto ORDAINS as follows:

**SECTION 1.** Findings and declarations. The City Council finds and declares as follows:

- A. The City's Foothills Nature Preserve is reserved for park, playground, recreation, or conservation purposes by Palo Alto Municipal Code (PAMC) 22.08.090 *et seq.*;
- B. Based on recommendation from the Parks and Recreation Commission, the City Council desires to modify the capacity range of Foothills Nature Preserve and make amendments to some Preserve discounts.

**SECTION 2.** Subsection (k) of section 22.04.150 (Foothills Nature Preserve) of Chapter 22.04 (Parks and Recreation Building Use and Regulations) of Title 22 (Parks) is hereby amended as follows (new text in underline, deleted text in ~~striketrough~~):

(k) No more than ~~650~~ 600 people shall be permitted in Foothills Nature Preserve at any one time.

(1) The city manager or designee may establish a capacity limit in the range of ~~300 to 650~~ 400 to 600 people at Foothills Nature Preserve in order to protect the health, safety, and welfare of preserve users; to protect the natural resources in the preserve; and/or due to limits in parking, facilities, or staff availability. The city shall not distinguish between residents and non-residents in setting any limits under this subsection.

(2) The following persons shall not count toward the limit in this subsection: visitors with reservations in the Towle Campground, Oak Grove Picnic Area, and Interpretive Center Meeting Room; city-sanctioned recreation and education groups (including city-run programs for summer camps, field trips, and community partner youth groups); group permit holders; city-sanctioned park volunteers; and visitors arriving in a vehicle with a valid disabled person parking placard or license plate.

**SECTION 3.** If any section, subsection, sentence, clause, or phrase of this Ordinance is for any reason held to be invalid or unconstitutional by a decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of this Ordinance. The City Council hereby declares that it would have passed this Ordinance and each and every section, subsection, sentence, clause, or phrase not declared invalid or unconstitutional without regard to whether any portion of the Ordinance would be subsequently declared invalid or unconstitutional.



**SECTION 4.** The Council finds that this project is categorically exempt from the provisions of the California Environmental Quality Act ("CEQA") under sections 15301 (Existing Facilities) and 15323 (Normal Operations of Facilities for Public Gatherings).

**SECTION 5.** This Ordinance shall be effective on the thirty-first date after the date of its adoption.

INTRODUCED:

PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

NOT PARTICIPATING:

ATTEST:

\_\_\_\_\_  
City Clerk

\_\_\_\_\_  
Mayor

APPROVED AS TO FORM:

APPROVED:

\_\_\_\_\_  
Assistant City Attorney

\_\_\_\_\_  
City Manager

\_\_\_\_\_  
Director of Community Services

\_\_\_\_\_  
Director of Administrative Services



## Attachment A

The Parks and Recreation Commission recommends that City Council adopt the following Open Space and Parks Photography and Film policy (Attachment A):

## **Palo Alto Open Space and Parks Photography and Film Policy**

### Photography and Film Permit overview

- Photography and film is defined as the recording on any medium of still or motion images
- Permits are not required for personal photography and film
- Permits are required for low-impact photography and film
- High-impact photography and film are not permissible
- Please allow a minimum of two weeks (14 calendar days) for permit approval and processing
- Permit fees may apply
- Parking is limited, and vehicles generally are not permitted outside of designated parking lots and roadways
- The use of drones is not permitted
- To protect wildlife and habitat, access is limited to designated trails (see exclusions below) and established use areas such as turf and picnic areas

### Personal Photography and Film—No Permit Required

Permits are not required for photography and film that meets all the following requirements:

- Non-commercial (still, motion picture, video, digital, and other)
- No impacts to vegetation, habitat, wildlife, or visitor use
- 24 or fewer people
- Duration of one hour or less
- No exclusive use of parks and preserves (blocking trails, parking spaces, roads, pathways, or any public access)
- In compliance with all municipal codes and park regulations. Municipal Code and Park Regulations may be found here:  
<https://www.cityofpaloalto.org/Departments/Community-Services/Open-Space-Parks/Open-Space-Preserves/Rules-Regulations>
- Examples of personal photography and film include photography that does not require additional permits, small professional group shoots with limited subjects and crew (e.g., one photographer, 1-5 subjects) such as an engagement or immediate family photography session, and shoots with no impact to vegetation, habitat, wildlife, or visitor use.

### Photography and Film--Permit Required

Low-impact photography and film may be permitted. This is generally associated with smaller shoots that do not significantly impact City-owned property, the public right-of-way, and other visitors use of the park or preserve. Permits cannot be issued for shoots that will have any significant impacts to vegetation, habitat, wildlife, or visitor use.



Low-impact photography or film requires that a completed Photography and Film Permit application be submitted to the manager of the desired park or preserve. The application will be reviewed, and a permit may be granted once all fees and forms have been submitted. Wedding photography and film may, depending on the circumstances, require a permit and fees.

Permits are required for photography and film that includes:

- Commercial shoot (as defined in Palo Alto Open Space and Parks Regulations R1-21A)
- Duration of up to two hours
- Multi-camera shoot
- Additional lighting, sound, and other equipment

Permits for photography and film will not allow the following:

- Commercial shoots that significantly impact City-owned property or the public right-of-way, either by utilizing a large area of City-property, negatively impacting the property, or requiring traffic control/street closures. Typically, these shoots include a crew with multiple photographers/cameras, and assistants and talent.
- Shoots on weekends and City holidays
- Shoots during park closure hours
- Duration of shoot for more than two hours, including set up and tear down
- Exclusive use of a significant area within a park or preserve

#### Photography and Film Permit Application Conditions

All permit applicants shall accept and agree to comply with the following photography and film general conditions:

1. Utmost care will be exercised to ensure that wildlife, habitat, and natural/historic/cultural resources are not disturbed or impacted.
2. Photography and film of wildlife will be permitted only when such wildlife will not be approached within 100', fed, harmed, or otherwise disturbed from their natural behavior.
3. Drones are not allowed.
4. No employee of the City of Palo Alto may work for the permittee in any capacity whatsoever while in uniform or if directly involved in supervision of the permittee.
5. Amplified sound such as gunfire, sirens, public address systems, and other similar noise-producing equipment are not permitted under any circumstances. Other amplified sound such as music requires an additional noise abatement permit for a level more than fifteen dB above the local ambient at a distance of twenty-five feet or more. PAMC 22.04.180/PAMC 9.10.050 [https://codelibrary.amlegal.com/codes/paloalto/latest/paloalto\\_ca/0-0-0-83686#JD\\_22.04.180](https://codelibrary.amlegal.com/codes/paloalto/latest/paloalto_ca/0-0-0-83686#JD_22.04.180) [https://codelibrary.amlegal.com/codes/paloalto/latest/paloalto\\_ca/0-0-0-66214#JD\\_9.10.050](https://codelibrary.amlegal.com/codes/paloalto/latest/paloalto_ca/0-0-0-66214#JD_9.10.050)
6. Production vehicles shall park according to an approved parking plan.
7. Areas of filming shall be cleared, and the site left as found at end of each day's shooting.



8. Smoking, vaping, or any open flame are not permitted.

9. Exclusive use of any significant areas is not permitted, including:

- Closing roads and trails
- Off-trail access
- Access to trails less than 48" (must allow at least 5' of trail width for other park visitors to pass)
- Use of generators requires an additional permit and fees (see Special Event Permit Application)

11. Fees will be determined during the permit review process and will be discussed with applicant prior to permit issuance. A refundable deposit of up to \$1,000 may be required to ensure compliance with permit conditions. The amount, if any, to be refunded to the permittee is solely at the discretion of the City of Palo Alto.

12. A permit is required for all groups of 25 people or more <https://www.cityofpaloalto.org/Departments/Community-Services/Open-Space-Parks/Open-Space-Preserves/Rules-Regulations>

13. The Special Event Permit fee range (currently \$324 - \$2,163) applies to Parks and Open Space Photography and Film Permits





## City of Palo Alto City Council Staff Report

(ID # 14261)

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**Report Type:** Consent Calendar

**Meeting Date:** 5/2/2022

**Summary Title:** Retail Temporary Ordinance Extension

**Title:** PUBLIC HEARING: Adoption of an Ordinance Amending Palo Alto Municipal Code (PAMC) Title 18 (Zoning), Chapters 18.04 (Definitions), 18.16 (Neighborhood, Community, and Service Commercial (CN, CC and CS) Districts), 18.18 (Downtown Commercial (CD) Districts) and 18.30 (A) and (C) the Retail and Ground Floor Combining Districts. Environmental Review: Exempt Under California Environmental Quality Act (CEQA) Guidelines Section 15061(b)(3) until December 16, 2022.

**From:** City Manager

**Lead Department:** Planning and Development Services

### Recommendation

Staff recommends Council adopt an ordinance (Attachment A) extending the existing temporary ordinance (#5517), which broadens permissible uses and raises conditional use permit thresholds for some land uses in the City with certain exceptions, for an additional six months.

### Executive Summary

The existing temporary ordinance (#5517) that broadens permissible uses and raises thresholds for Conditional Use Permits (CUPs) for some land uses throughout the City is due to expire on June 30, 2022. At the March 30, 2022, PTC meeting, the PTC considered a proposed ordinance making permanent changes contained within the temporary ordinance. In its motion, the PTC moved to continue the item to a date uncertain to allow additional time to evaluate the substantive changes.

This necessitates the extension of the temporary ordinance to avoid a lapse in the policy due to time constraints. While Council is considering this extension, the PTC will continue its review of the temporary ordinance and prepare a recommendation for the City Council later this year.



The proposed ordinance does not make any changes to the details of the temporary ordinance, but specifically modifies the term to extend for six months, until December 16, 2022.

## Background

On November 9, 2020, the City Council received an update on the City's community and economic recovery strategies. The City Council directed<sup>1</sup> staff to return on December 14, 2020 with an ordinance to temporarily implement discrete amendments to the zoning code that would broaden the definition of retail uses and relax the CUP threshold for certain uses; the temporary ordinance was passed on first reading without any changes.<sup>2,3</sup>

The second reading of the ordinance was presented to the City Council on January 11, 2021; the item was pulled from the consent calendar and placed on the January 19, 2021 agenda. Staff prepared an at-places memo<sup>4</sup> to respond to Councilmember questions. Due to the lateness of the meeting, the item was continued to a Council date uncertain.

On March 8, 2021<sup>5</sup>, the second reading of the ordinance was presented to the City Council. At that meeting, the Council directed several amendments to the ordinance<sup>6</sup>. Another second reading of the ordinance was presented to the City Council on April 12, 2021<sup>7</sup> and, with the inclusion of the amendments, a temporary ordinance was adopted. This temporary ordinance is set to expire June 30, 2022 unless Council adopts replacement (extension) legislation.

On March 30, 2022<sup>8</sup>, staff presented the PTC with a proposed ordinance that would have codified the temporary standards with some adjustments. After hearing public testimony<sup>9</sup>, the

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<sup>1</sup> November 9, 2020 Action Meeting Minutes:

<https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=42635.86&BlobID=79443>

<sup>2</sup> December 14, 2020 Staff Report:

<https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=60118.96&BlobID=79480>

<sup>3</sup> December 14, 2020 Action Meeting Minutes:

<https://www.cityofpaloalto.org/civicax/filebank/documents/79829>

<sup>4</sup> At Places Memo, dated January 19, 2021:

<https://www.cityofpaloalto.org/civicax/filebank/documents/79946>

<sup>5</sup> March 8, 2021 Staff Report

<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2021/id-12054.pdf>

<sup>6</sup> Action Meeting Minutes, March 8, 2021

<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2021/03-08-21-ccm-action-minutes.pdf>

<sup>7</sup> April 12, 2021 Staff Report

<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2021/id-12165.pdf>

<sup>8</sup> March 30, 2022 Staff Report

<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/planning-and-transportation-commission/2022/ptc-03.30.2022-cup.pdf>



PTC discussed a desire to evaluate the proposed changes more thoroughly. The PTC moved to continue the item to a date uncertain, while staff seeks an extension of the temporary ordinance.

## **Discussion**

The temporary ordinance responds to Council direction for minor amendments to the definitions section of the zoning code and adjustments to the thresholds to determine when a conditional use permit (CUP) is required. The purpose of the amendments is to promote retail activity and decrease commercial vacancies.

Temporary amendments were to the ‘eating and drinking’ establishments, ‘personal service’, ‘retail services’ and ‘take-out service’ definitions. The square footage thresholds for requiring a CUP temporarily increased for ‘commercial recreation’, ‘medical office’ and some ‘personal services’ uses in various commercial districts.

The temporary ordinance also includes the Council’s additional amendments for exceptions to the thresholds for certain uses located along University Avenue, California Avenue, and Town & Country Village Shopping Center because of concerns that certain personal service uses may replace traditional retail spaces. The changes were relatively minor and reserved more significant policy recommendations to future public hearings and analysis before the PTC.

## **Planning and Transportation Commission Review**

The PTC reviewed a draft Ordinance on March 30, 2022 that was intended to make permanent the revisions contained in the temporary ordinance. The PTC voted 6-0 to continue the discussion of the item to a date uncertain until staff receives an extension to the temporary ordinance allowing further evaluation. PTC members expressed a desire to study the issues more thoroughly.

## **Proposed Schedule**

Staff plans to bring this discussion forward to the PTC later this year for consideration of making permanent the temporary ordinance. The PTC’s review will focus exclusively on the contents of the temporary ordinance and whether the thresholds and definitions are advisable, if changes should be made, or if policy should revert to previous definitions and size thresholds for CUPs.

Additional items were referred to the PTC on March 8, 2021, when Council considered the temporary ordinance. These items will be discussed separately from the temporary ordinance. In particular, further staff and PTC work on these items will benefit from the economic

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<sup>9</sup> March 30, 2022 PTC Meeting Video

[https://www.youtube.com/watch?v=klK\\_PzGBX30&start=14810&width=420&height=315](https://www.youtube.com/watch?v=klK_PzGBX30&start=14810&width=420&height=315)



development consultant the Council has directed be identified as well as the economic development position in the City Manager's Office. These topics for future review include:

- Evaluating the most appropriate way to define eating and drinking uses,
- evaluating the 1,800 square foot CUP threshold for gyms on University Avenue, California Avenue and within Town and Country Village Shopping Center, and
- evaluating the occupancy of commercial recreation facilities.

This work will coincide with the greater effort by the City to evaluate retail uses on a Citywide or district by district level as directed by the City Council on November 9, 2022<sup>10</sup> but is currently un-resourced and not being pursued at this time. Based on the foregoing, staff propose extending the ordinance to preserve the existing temporary regulations and allow time to bring forward a new ordinance.

### **Summary of Key Issues**

The City Council enacted a temporary ordinance to help businesses and property owners with the effects of the pandemic on the economy. In this report, Council is asked to approve an extension of the temporary ordinance for an additional six months, ending December 16, 2022.

### **Policy Implications**

The various changes contained with the temporary ordinance are intended to streamline the process for certain new businesses. Since the adoption of the temporary ordinance only four businesses have taken advantage of the changes. It is difficult to ascertain whether the limited effects of the ordinance are because of the ongoing pandemic or other reasons. It is too soon to establish a trend.

If the ordinance is not extended as recommended, the temporary standards would expire and revert to the previous code provisions.

### **Resource Impact**

This action has no significant budget or fiscal impact.

### **Timeline**

If City Council adopts the ordinance on May 2, 2022 (First Reading), the Second Reading is tentatively scheduled for May 16, 2022. The ordinance will become effective 31 days following the Second Reading on June 16, 2022. The new expiration date will be December 16, 2022.

<sup>10</sup> 11.09.20 Council Action Minutes: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2020/november-09-2020-city-council-meeting-action-minutes.pdf>



## **Stakeholder Engagement**

Internal coordination with applicable city staff and departments was held for this specific report and ordinance. Opportunities for public engagement continue for the draft ordinance being reviewed by the PTC.

## **Environmental Review**

The project is exempt from the California Environmental Quality Act (CEQA) in accordance with CEQA Guidelines 15061(b)(3) in that it can be seen with certainty that ordinance will not have a significant impact on the environment. The ordinance makes minor adjustments to land use definitions and modest changes to the thresholds for discretionary review.

### **Attachments:**

**Attachment8.a:        Attachment A: Ordinance Temporarily Extending Ord 5517 Amending PAMC Ch 18.04, 18.16, 18.18, 18.30 (PDF)**



\*NOT YET ADOPTED\*

Ordinance No. \_\_\_\_\_

Ordinance of the Council of the City of Palo Alto Temporarily Extending Ordinance 5517, Amending Palo Alto Municipal Code (PAMC) Title 18 (Zoning), Chapters 18.04 (Definitions), 18.16 (Neighborhood, Community, and Service Commercial (CN, CC and CS) Districts), 18.18 (Downtown Commercial (CD) Districts) and 18.30 (A) and (C) – the Retail and Ground Floor combining districts

The Council of the City of Palo Alto does ORDAIN as follows:

**SECTION 1.** Findings and Declarations. The City Council finds and declares as follows:

- A. On April 5, 2021 the City Council adopted Ordinance 5517 to temporarily relax certain zoning regulations in the City’s commercial zoning districts to address some of the economic challenges created by the COVID-19 pandemic and to spur economic activity.
- B. The City Council directed the Planning and Transportation Commission (PTC) to review certain elements of the temporary ordinance and provide a recommendation to the City Council.
- C. On March 30, 2022 the PTC recommended that the term of Ordinance 5517 be extended to allow additional time for consideration of whether the temporary relaxation of zoning regulations should remain indefinitely, and whether such regulations should be otherwise amended.
- D. The public health, safety, or welfare require that the amendments temporarily enacted by Ordinance 5517 remain in effect without interruption while the PTC conducts its additional review.

**SECTION 2.** The effective date of Ordinance 5517 of the Palo Alto City Council, attached hereto as Exhibit A and incorporated herein, is hereby extended so that the Ordinance shall expire upon the earlier of December 16, 2022 or adoption of replacement legislation by the City Council. Upon expiration of Ordinance 5517, the City Clerk shall direct the City’s codifier to update the Palo Alto Municipal Code as appropriate.

**SECTION 3.** Any provision of the Palo Alto Municipal Code or appendices thereto inconsistent with the provisions of this Ordinance, to the extent of such inconsistencies and no further, is hereby repealed or modified to that extent necessary to effect the provisions of this Ordinance.

**SECTION 4.** If any section, subsection, sentence, clause, or phrase of this Ordinance is for any reason held to be invalid or unconstitutional by a decision of any court of competent



\*NOT YET ADOPTED\*

jurisdiction, such decision shall not affect the validity of the remaining portions of this Ordinance. The City Council hereby declares that it would have passed this Ordinance and each and every section, subsection, sentence, clause, or phrase not declared invalid or unconstitutional without regard to whether any portion of the ordinance would be subsequently declared invalid or unconstitutional.

**SECTION 5.** The Council finds that the adoption of this ordinance is exempt from the provisions of the California Environmental Quality Act pursuant to CEQA Guideline sections 15061(b)(3) because it can be seen.

**SECTION 6.** This ordinance shall be effective on the thirty-first date after the date of its adoption.

INTRODUCED:

PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

NOT PARTICIPATING:

ATTEST:

\_\_\_\_\_  
City Clerk

\_\_\_\_\_  
Mayor

APPROVED AS TO FORM:

APPROVED:

\_\_\_\_\_  
Assistant City Attorney

\_\_\_\_\_  
City Manager

\_\_\_\_\_  
Director of Planning & Development  
Services



## Ordinance No. 5517

Ordinance of the Council of the City of Palo Alto Amending Palo Alto Municipal Code (PAMC) Title 18 (Zoning), Chapters 18.04 (Definitions), 18.16 (Neighborhood, Community, and Service Commercial (CN, CC and CS) Districts), 18.18 (Downtown Commercial (CD) Districts) and 18.30 (A) and (C) – the Retail and Ground Floor Combining Districts

The Council of the City of Palo Alto does ORDAIN as follows:

**SECTION 1.** Findings and Declarations. The City Council finds and declares as follows:

- A. On March 4, 2020, California Governor Gavin Newsom declared a State of Emergency due to the threat of Coronavirus Disease 2019 (“COVID-19”).
- B. As a result of the COVID-19 pandemic and the public health response, restaurant, retail, tourism, and hospitality business has significantly declined and the nation is experiencing a recession.
- C. The City Council desires to relax certain zoning regulations in the City’s commercial zoning districts to address some of the economic challenges created by the COVID-19 pandemic and to spur economic activity.
- D. The public health, safety, or welfare require that such changes to the City’s zoning regulations be enacted for a temporary period and as expediently as possible, without review by the Planning and Transportation Commission pursuant to Palo Alto Municipal Code section 18.80.090.

**SECTION 2.** Section 18.04.030 (Definitions) of Chapter 18.04 (Definitions) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows:

**18.04.030 Definitions**

(a) Throughout this title the following words and phrases shall have the meanings ascribed in this section.

[. . .]

(45) “Drive-in/drive-through service” means a feature or characteristic of a use involving sales of products or provision of services to occupants in vehicles, including drive-in or drive-up windows and drive- through services such as mechanical automobile washing, pharmacy windows, coffee stands, automatic teller machines, etc.

[. . .]



(47) “Eating and drinking service” means a use providing preparation and retail sale of food and beverages with a full menu and providing indoor seating area. Eating and drinking service include presence of a full commercial kitchen and commercial dishwasher. including restaurants, fountains, cafes, coffee shops, sandwich shops, ice cream parlors, taverns, cocktail lounges and similar uses. For establishments with incidental sale alcoholic beverages, a minimum of 50% of revenues from an ‘eating and drinking service’ must be derived from the sale of food. Related definitions are provided in subsections (45) (Drive-in/drive-through service), (125)(B) (Intensive retail service) and (136) (Take-out service).

[. . .]

(95) “Medical office” means a use providing consultation, diagnosis, therapeutic, preventive, or corrective personal treatment services by doctors, dentists, medical and dental laboratories, and similar practitioners of medical and healing arts for humans, licensed for such practice by the state of California. Incidental medical and/or dental research within the office is considered part of the office use, where it supports the on-site patient services. Medical office use does not include the storage or use of hazardous materials in excess of the permit quantities as defined in Title 15 of the Municipal Code. Medical gas storage or use shall be allowed up to 1,008 cubic feet per gas type and flammable liquids storage and use shall be allowed up to 20 gallons total (including waste).

(95.1) ~~(A)~~—“Medical research” means a use related to medical and/or dental research, testing and analysis, including but not limited to trial and clinical research. Biomedical and pharmaceutical research and development facilities are not included in this definition. Medical Research does not include the storage or use of quantities of hazardous materials above the exempt quantities listed in Title 15 of the Municipal Code nor any toxic gas regulated by Title 15. Additionally, Medical Research may include storage and use of etiological (biological) agents up to and including Risk Group 2 or Bio Safety Level 2 (Center for Disease Control).

(95.2) ~~(B)~~—“Medical support retail” means a retail use providing sales, rental, service, or repair of medical products and services to consumers or businesses, and whose location near hospitals or medical offices facilitates the provision of medical care or medical research. Examples of medical retail uses typically include, but are not limited to, pharmacies, sale of prosthetics, and sale of eyeglasses or other eye care products.

(95.3) ~~(C)~~ “Medical support service” means a use providing administrative support functions for healthcare providers or facilities, intended to support the operations of hospitals or of medical and dental office uses, and whose location near those medical facilities enhances the interaction between medical providers and/or facilitates the provision of medical care or medical research. Examples of medical support service uses typically include, but are not limited to, administration and billing services, public relations, training, and fundraising. Hospitals and ambulance services are not included in this definition.

[. . .]



(114) “Personal service” means a use providing services of a personal convenience nature, and cleaning, repair or sales incidental thereto, including:

(A) Beauty shops, nail salons, day spas, and barbershops;

(B) Self-service laundry and cleaning services; laundry and cleaning pick-up stations where all cleaning or servicing for the particular station is done elsewhere; and laundry and cleaning stations where the cleaning or servicing for the particular station is done on site, utilizing equipment meeting any applicable Bay Area Air Quality Management District requirements, so long as no cleaning for any other station is done on the same site, provided that the amount of hazardous materials stored does not at any time exceed the threshold which would require a permit under Title 17 (Hazardous Materials Storage) of this code;

(C) Repair and fitting of clothes, shoes, and personal accessories;

(D) Quick printing and copying services where printing or copying for the particular service is done on site, so long as no quick printing or copying for any off-site printing or copying service is done on the same site;

(E) Internet and other consumer electronics services;

(F) Film, data and video processing shops, including shops where processing for the particular shop is done on site, so long as no processing for any other shop is done on the same site;

(G) Art, dance or music studios intended for an individual or small group of persons in a class (see “commercial recreation” for other activities); and

(H) Fitness and exercise studios, or similar uses, in a space having of 1,800 5,000 square feet or fewer of gross floor area (see “commercial recreation” for uses exceeding 5,000 square feet other activities).

(I) Learning centers intended for individual or small group settings, including tutoring, standardized test preparation, language classes, after-school programs, cooking classes, and similar uses.

[. . .]

(125) “Retail service” means a use open to the public during typical business hours and predominantly engaged in providing retail sale, rental, service, processing, or repair of items primarily intended for consumer or household use.

(A) “Extensive retail service,” as used with respect to parking requirements, means a retail sales use having more than seventy-five percent of the gross floor area used for display, sales, and related storage of bulky commodities, including household furniture and appliances, lumber and building materials, carpeting and floor covering, air conditioning and heating equipment, and similar goods, which uses have demonstrably low parking demand generation per square foot of gross floor area.



(B) "Intensive retail service" as used with respect to parking requirements, means any retail service use not defined as extensive retail service and including limited food service (i.e. 'ready-to-eat' food and/or beverage shops without a full commercial kitchen, where food and/or beverages are ready to consume at the time of sale and any seating area is limited; examples include sandwiches, frozen desserts, non-alcoholic beverages, and baked items).

[. . .]

(136) "Take-out service" means a characteristic of an eating or drinking service which encourages, on a regular basis, consumption of food or beverages, such as prepared or prepackaged items, outside of a building, in outdoor seating areas where regular table service is not provided, in vehicles parked on the premises, or off-site. Take-out service does not include intensive retail service uses, as defined in subsection (125)(B).

[. . .]

**SECTION 3.** Section 18.16.040 (Land Uses) of Chapter 18.16 (Neighborhood, Community, and Service Commercial (CN, CC, CS) Districts) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows:

The uses of land allowed by this chapter in each commercial zoning district are identified in the following tables. Land uses that are not listed on the tables are not allowed, except where otherwise noted. Where the last column on the following tables ("Subject to Regulations in") includes a section number, specific regulations in the referenced section also apply to the use; however, provisions in other sections may apply as well.

(a) Commercial Zones and Land Uses

Permitted and conditionally permitted land uses for each commercial zone are shown in Table 1:

**TABLE 1**

**PERMITTED AND CONDITIONALLY PERMITTED USES**

**P = Permitted Use      CUP = Conditional Use Permit Required**

LAND USE	CN(4)	CC, CC(2)	CS (4)	Subject to Regulations In:
<b>ACCESSORY AND SUPPORT USES</b>				
Accessory facilities and activities customarily associated with or essential to permitted uses, and operated incidental to the principal use.	P	P	P	18.42
Drive-in services or take-out services associated with permitted uses <sup>(3)</sup>	CUP	CUP	CUP	18.42



Tire, battery, and automotive service facilities, when operated incidental to a permitted retail service or shopping center having a gross floor area of more than 30,000 square feet.		CUP		18.42, 18.40.160
Safe Parking				18.42.160
<b>EDUCATIONAL, RELIGIOUS, AND ASSEMBLY USES</b>				
Business and Trade Schools		P	P	
Churches and Religious Institutions	P	P	P	
Private Educational Facilities	CUP	P	P	
Private Clubs, Lodges, or Fraternal Organizations	CUP	P	P	
<b>MANUFACTURING AND PROCESSING USES</b>				
Recycling Centers	CUP	CUP	CUP	
Warehousing and Distribution			CUP	
<b>OFFICE USES</b>				
Administrative Office Services			P	18.16.050
Medical Offices	CUP (5)	CUP (5)	CUP (5)	18.16.050
Professional and General Business Offices	P	P	P	18.16.050
<b>PUBLIC/QUASI-PUBLIC USES</b>				
Utility Facilities essential to provision of utility services but excluding construction or storage yards, maintenance facilities, or corporation yards.	CUP	CUP	CUP	
<b>RECREATION USES</b>				
Commercial Recreation	CUP (5)	CUP (5)	CUP (5)	18.40.160
Outdoor Recreation Services	CUP	CUP	CUP	



<b>RESIDENTIAL USES</b>				
Multiple-Family	P(1)	P(1)	P(1)	18.16.060(b) and (c)
Home Occupations	P	P	P	
Residential Care Homes	P	P	P	
<b>RETAIL USES</b>				
Eating and Drinking Services, excluding drive-in and take-out services	P	P	P	18.40.160
Retail Services, excluding liquor stores	P	P	P	18.40.160
Liquor stores	CUP	P	P	18.40.160
Shopping Centers		P		18.16.060(e), 18.40.160
<b>SERVICE USES</b>				
Ambulance Services	CUP	CUP	CUP	
Animal Care, excluding boarding and kennels	P	P	P	
Boarding and Kennels			CUP	
Automobile Service Stations	CUP	CUP	CUP	18.30(G)
Automotive Services			CUP	
Convalescent Facilities	CUP	P	P	
Day Care Centers	P	P	P	18.40.160
Small Family Day Care Homes	P	P	P	
Large Family Day Care Homes	P	P	P	
Small Adult Day Care Homes	P	P	P	
Large Adult Day Care Homes	CUP	P	P	
Banks and Financial Services V	CUP	P(2)	P(2)	
General Business Services		CUP	P	
Hotels		P	P	18.16.060(d), 18.40.160



Mortuaries	CUP	P	P	
Neighborhood Business Services	P			18.16.060(f)
Personal Services	P	P <u>(6)</u>	P	18.16.060(f), 18.40.160
Reverse Vending Machines	P	P	P	
<b>TEMPORARY USES</b>				
Farmer's Markets	CUP	CUP	CUP	
Temporary Parking Facilities, provided that such facilities shall remain no more than five years.	CUP	CUP	CUP	
<b>TRANSPORTATION USES</b>				
Parking as a principal use		CUP	CUP	
Transportation Terminals		CUP	CUP	
<b>P = Permitted Use</b>	<b>CUP = Conditional Use Permit Required</b>			

(1) Residential is only permitted: (i) as part of a mixed use development, pursuant to the provisions of Section 18.16.060(b), or (ii) on sites designated as housing inventory sites in the Housing Element of the Comprehensive Plan, (iii) on CN or CS sites on El Camino Real, or (iv) on CC(2) sites, all pursuant to the provisions of Section 18.16.060(b) and (c).

(2) Except drive-in services.

(3) So long as drive up facilities, excluding car washes, provide full access to pedestrians and bicyclists. A maximum of two such services shall be permitted within 1,000 feet, and each use shall not be less than 150 feet from one another.

(4) For properties in the CN and CS zone districts, businesses that operate or have associated activities at any time between the hours of 10:00 p.m. and 6:00 a.m. require a conditional use permit.

(5) A conditional use permit is not required for medical office or commercial recreation uses up to 5,000 square feet of gross floor area, with the following exceptions, for which a conditional use permit is always required: (A) medical office fronting on California Avenue and in the Midtown Shopping District; (B) commercial recreation uses fronting on California Avenue and in the Town and Country Village Shopping Center.

(6) A conditional use permit is required for the following uses when fronting on California Avenue: (A) Fitness or exercise studios, and similar uses exceeding 1,800 square feet in gross floor area; and (B) Learning centers intended for individual or small group settings. A conditional use permit is required for



fitness or exercise studios, and similar uses exceeding 1,800 square feet in gross floor area in Town and Country Village Shopping Center.

[. . .]

**SECTION 4.** Section 18.16.060 (Development Standards) of Chapter 18.16 (Neighborhood, Community, and Service Commercial (CN, CC, CS) Districts) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows:

**18.16.060 Development Standards**

[. . .]

(f) Size of Establishments in the CN District

In the CN district, permitted commercial uses shall not exceed the floor area per individual use or business establishment shown in Table 5. Such uses may be allowed to exceed the maximum establishment size, subject to issuance of a conditional use permit in accord with Section 18.76.010. The maximum establishment size for any conditional use shall be established by the director and specified in the conditional use permit for such use.

**TABLE 5**  
MAXIMUM SIZE OF ESTABLISHMENT

Type of Establishment	Maximum Size (sq ft)
Personal Services	<del>2,500</del> <u>3,000</u>
Retail services, except grocery stores	15,000
Grocery stores	20,000
Eating and drinking services	5,000
Neighborhood business services	<del>2,500</del> <u>3,000</u>

[. . .]

(h) Outdoor Sales and Storage

(2) In the CC district and in the CC (2) district, the following regulations shall apply to outdoor sales and storage:

(A) Except in shopping centers, all permitted office and commercial activities shall be conducted within a building, except for:

(i) Incidental sales and display of plant materials and garden supplies occupying no more than 2,000 square feet of exterior sales and display area,

(ii) Outdoor eating areas operated incidental to permitted eating and drinking services or intensive retail uses,

(iii) Farmers' markets that have obtained a conditional use permit, and



(iv) Recycling centers that have obtained a conditional use permit.

(B) Any permitted outdoor activity in excess of 2,000 square feet shall be subject to a conditional use permit.

**SECTION 5.** Sections 18.18.050 (Land Uses) of Chapter 18.18 (Commercial Downtown (CD) District) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows:

**18.18.050 Land Uses**

The uses of land allowed by this chapter in each commercial zoning district are identified in the following table. Land uses that are not listed on the tables are not allowed, except where otherwise noted. Where the last column on the following tables ("Subject to Regulations in") includes a section number, specific regulations in the referenced section also apply to the use; however, provisions in other sections may apply as well.

Permitted and conditionally permitted land uses for the CD district are shown in Table 1:

<b>Table 1</b>				
<b>CD Permitted and Conditionally Permitted Uses</b>				
<b>P Permitted Use • CUP Conditional Use Permit Required</b>				
	CD-C	CD-S	CD-N	Subject to regulations in Chapter:
<b>ACCESSORY USES</b>				
Accessory facilities and activities associated with or essential to permitted uses, and operated incidental to the principal use	P	P	P	
Drive-in or Take-out Services associated with permitted uses <sup>(2)</sup>	CUP	CUP	CUP	
Tire, battery, and automotive service facilities, when operated incidental to a permitted retail service or shopping center having a gross floor area of more than 30,000 square feet	CUP			<a href="#">18.40.160</a>
Safe Parking				<a href="#">18.42.160</a>
<b>EDUCATIONAL, RELIGIOUS, AND ASSEMBLY USES</b>				
Business and Trade Schools	P	P		
Churches and Religious Institutions	P	P	P	



Private Educational Facilities	P	P	CUP	
Private Clubs, Lodges, or Fraternal Organizations	P	P	CUP	
<b>MANUFACTURING AND PROCESSING USES</b>				
Recycling Centers	CUP	CUP	CUP	
Warehousing and Distribution		CUP		
<b>OFFICE USES</b>				
Administrative Office Services		P		<a href="#">18.18.060(f)</a>
Medical, Professional, and General Business Offices	P	P	P	<a href="#">18.18.060(f)</a>
<b>PUBLIC/QUASI-PUBLIC FACILITY USES</b>				
Utility Facilities essential to provision of utility services but excluding construction or storage yards, maintenance facilities, or corporation yards	CUP	CUP		
<b>RECREATION USES</b>				
Commercial Recreation	CUP (3)	CUP (3)	CUP (3)	
Outdoor Recreation Services	CUP	CUP	CUP	
<b>RESIDENTIAL USES</b>				
Multiple-Family	P <sup>(1)</sup>	P <sup>(1)</sup>	P <sup>(1)</sup>	<a href="#">18.18.060(b)</a>
Home Occupations	P	P	P	
Residential Care Homes	P	P	P	
<b>RETAIL USES</b>				
Eating and Drinking Services, except drive-in or take-out services	P	P	P	<a href="#">18.18.060(g)</a> , <a href="#">18.40.160</a>
Retail Services, excluding liquor stores	P	P	P	<a href="#">18.18.060(g)</a> , <a href="#">18.40.160</a>
Shopping Centers	P			<a href="#">18.18.060(g)</a> , <a href="#">18.40.160</a>



				<a href="#">8.40.160</a>
Liquor Stores	P	P	CUP	<a href="#">18.40.160</a>
<b>SERVICE USES</b>				
Animal Care, excluding boarding and kennels	P	P	P	
Ambulance Services	CUP	CUP	CUP	<a href="#">18.30(G)</a>
Automobile Service Stations	CUP	CUP	CUP	
Automobile Services		CUP		
Convalescent Facilities	P	P	CUP	
Day Care Centers	P	P	P	<a href="#">18.40.160</a>
Small Family Day Care Homes	P	P	P	
Large Family Day Care Homes	P	P	P	
Small Adult Day Care Homes	P	P	P	
Large Adult Day Care Homes				
Financial Services, except drive-up services	P	P	CUP	
General Business Services	CUP	P	P	
Hotels	P	P	P	<a href="#">18.18.060(d)</a> , <a href="#">18.40.160</a>
Mortuaries	P	P	CUP	
Personal Services	<u>P (4)</u>	<u>P (4)</u>	<u>P (4)</u>	<a href="#">18.18.060(g)</a> , <a href="#">18.40.160</a>
Reverse Vending Machines	P	P	P	
<b>TRANSPORTATION USES</b>				
Parking as a principal use	CUP	CUP		
Passenger Transportation Terminals		CUP		



TEMPORARY USES				
Indoor Farmers' Markets	CUP	CUP	CUP	
Temporary Parking Facilities, provided that such facilities shall remain no more than five years	CUP	CUP	CUP	
P Permitted Use                      CUP Conditional Use Permit Required				
(1) Residential is only permitted as part of a mixed use development, pursuant to the provisions of Section <a href="#">18.18.060(b)</a> , or on sites designated as Housing Opportunity Sites in the Housing Element of the Comprehensive Plan, pursuant to the provisions of Section <a href="#">18.18.060(c)</a> .				
(2) Drive-up facilities, excluding car washes, provide full access to pedestrians and bicyclists. A maximum of two such services shall be permitted within 1,000 feet and each use shall not be less than 150 ft from one another.				
<u>(3) A conditional use permit is not required for commercial recreation uses up to 5,000 square feet of gross floor area, with the following exceptions, for which a conditional use permit is always required: (A) medical office fronting on University Avenue; (B) commercial recreation uses fronting on University Avenue.</u>				
<u>(4) A conditional use permit is required for the following uses when fronting on University Avenue: (A) Fitness or exercise studios, and similar uses; and (B) Learning centers intended for individual or small group settings.</u>				

**SECTION 6.** Section 18.18.060 (Development Standards) of Chapter 18.18 (Commercial Downtown (CD) District) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows:

[. . .]

(g) Restrictions on Size of Commercial Establishments in CD-N Subdistrict

In the CD-N subdistrict, permitted commercial uses shall not exceed the floor area per individual use or business establishment shown in Table 4. Such uses may be allowed to exceed the maximum establishment size, subject to the issuance of a conditional use permit in accordance with [Chapter 18.76](#). The maximum establishment size for any conditional use shall be established by the director and specified in the conditional use permit for such use.

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**TABLE 4**  
**MAXIMUM SIZE OF ESTABLISHMENT**

Type of Establishment	Maximum Size (ft <sup>2</sup> )
Personal Services	<del>2,500</del> <u>3,000</u>
Retail services, except grocery stores	15,000
Grocery stores	20,000
Eating and drinking services	5,000

(h) Outdoor Sales and Storage.

The following regulations shall apply to outdoor sales and storage in the CD district:

(1) CD-C Subdistrict

In the CD-C subdistrict, the following regulations apply:

(A) Except in shopping centers, all permitted office and commercial activities shall be conducted within a building, except for:

(i) Incidental sales and display of plant materials and garden supplies occupying no more than 2,000 square feet of exterior sales and display area,

(ii) Outdoor eating areas operated incidental to permitted eating and drinking services or intensive retail uses,

(iii) Farmers' markets which have obtained a conditional use permit, and

(iv) Recycling centers that have obtained a conditional use permit.

(B) Any permitted outdoor activity in excess of 2,000 square feet shall be subject to a conditional use permit.

(C) Exterior storage shall be prohibited, except recycling centers which have obtained a conditional use permit.

(2) CD-S Subdistrict

In the CD-S subdistrict, outdoor sales and display of merchandise, and outdoor eating areas operated incidental to permitted eating and drinking services and intensive retail uses shall be permitted subject to the following regulations:

(A) Outdoor sales and display shall not occupy a total site area exceeding the gross building floor area on the site, except as authorized by a conditional use permit.



(B) Areas used for outdoor sales and display of motor vehicles, boats, campers, camp trailers, trailers, trailer coaches, house cars, or similar conveyances shall meet the minimum design standards applicable to off-street parking facilities with respect to paving, grading, drainage, access to public streets and alleys, safety and protective features, lighting, landscaping, and screening.

(C) Exterior storage shall be prohibited, unless screened by a solid wall or fence of between 5 and 8 feet in height.

(3) CD-N Subdistrict

In the CD-N subdistrict, all permitted office and commercial activities shall be conducted within a building, except for:

(A) Incidental sales and display of plant materials and garden supplies occupying not more than 500 square feet of exterior sales and display area, and

(B) Farmers' markets that have obtained conditional use permits.

[. . .]

**SECTION 7.** Section 18.30(A).040 (Permitted Uses) of Chapter 18.30(A) (Retail Shopping (R) Combining District Regulations) of Title 18 (Zoning) of the Palo Alto Municipal Code are amended to read as follows:

Except to the extent a conditional use permit is required pursuant to Section 18.30(A).050, the following uses shall be permitted in an R district:

- (a) Eating and drinking services, except drive-in and take-out services.
- (b) Personal services, except the following on California Avenue: beauty shops; nail salons; barbershops; ~~and~~ laundry and cleaning services as defined in Section 18.04.030(114)(B); fitness or exercise studios exceeding 1,800 square feet in gross floor area; and learning centers intended for individual or small group settings.
- (c) Retail services.
- (d) All other uses permitted in the underlying commercial district, provided they are not located on a ground floor.

**SECTION 8.** Section 18.30(A).050 (Conditional Uses) of Chapter 18.30(A) (Retail Shopping (R) Combining District Regulations) of Title 18 (Zoning) of the Palo Alto Municipal Code are amended to read as follows:

The following uses may be conditionally permitted in an R district, subject to the issuance of a conditional use permit in accord with Chapter 18.76 (Permits and Approval):

- (a) Financial services, except drive-in services, on a ground floor.
- (b) All other conditional uses allowed in the underlying commercial district provided they are not located on a ground floor.
- (c) Formula retail businesses on California Avenue.



(d) Beauty shops, nail salons, ~~and~~ barbershops, fitness or exercise studios exceeding 1,800 square feet in gross floor area; and learning centers intended for individual or small group settings.

**SECTION 9.** Section 18.30(C).020 (Permitted Uses) of Chapter 18.30(C) (Ground Floor (GF) Combining District Regulations) of Title 18 (Zoning) of the Palo Alto Municipal Code are amended to read as follows:

(a) The following uses shall be permitted in the GF combining district, subject to restrictions in Section 18.40.160180:

- (1) Eating and drinking;
- (2) Hotels;
- (3) Personal services, except for parcels with frontage on University Avenue, where uses defined in Section 18.04.030(114)(B), (G), ~~and~~ (H), and (I) are not permitted;
- (4) Retail services;
- (5) Theaters;
- (6) Travel agencies;
- (7) Commercial Recreation up to 5,000 square feet in gross floor area, except for parcels with frontage on University Avenue;

~~(78)~~ All other uses permitted in the underlying district, provided such uses are not on the ground floor.

(b) Elimination or conversion of basement space currently in retail or retail-like use or related support purposes is prohibited.

(c) Entrance, lobby, or reception areas serving non-ground floor uses may be located on the ground floor to the extent reasonably necessary, provided they do not interfere with the ~~ground-ground~~ floor use(s), and subject to the approval of the Director.

**SECTION 10.** Section 18.30(C).030 (Conditional Uses) of Chapter 18.30(C) (Ground Floor (GF) Combining District Regulations) of Title 18 (Zoning) of the Palo Alto Municipal Code are amended to read as follows:

(a) The following uses may be conditionally allowed on the ground floor in the GF ground floor combining district, subject to issuance of a conditional use permit in accord with Chapter 18.76 (Permits and Approvals) and with the additional finding required by subsection (b), subject to restrictions in Section 18.40.160:

- (1) Business or trade school;
- (2) Commercial recreation over 5,000 square feet in gross floor area or with frontage on University Avenue;
- (3) Day care;
- (4) Financial services, except drive in services;
- (5) General business service;
- (6) Learning centers intended for individual or small group settings;



(7) All other uses conditionally permitted in the applicable underlying district, provided such uses are not on the ground floor.

(b) The director may grant a conditional use permit under this section only if he or she makes the following findings in addition to the findings required by Chapter 18.76 (Permits and Approvals):

(1) The location, access or design of the ground floor space of the existing building housing the proposed use, creates exceptional or extraordinary circumstances or conditions applicable to the property involved that do not apply generally to property in the same district.

(2) The proposed use will not be determined to the retail environment or the pedestrian-oriented design objectives of the GF combining district.

(c) Any use conditionally permitted pursuant to this section shall be effective only during the existence of the building that created the exceptional circumstance upon which the finding set forth in subsection (b) was made.

**SECTION 11.** Any provision of the Palo Alto Municipal Code or appendices thereto inconsistent with the provisions of this Ordinance, to the extent of such inconsistencies and no further, is hereby repealed or modified to that extent necessary to effect the provisions of this Ordinance.

**SECTION 12.** If any section, subsection, sentence, clause, or phrase of this Ordinance is for any reason held to be invalid or unconstitutional by a decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of this Ordinance. The City Council hereby declares that it would have passed this Ordinance and each and every section, subsection, sentence, clause, or phrase not declared invalid or unconstitutional without regard to whether any portion of the ordinance would be subsequently declared invalid or unconstitutional.

**SECTION 13.** The Council finds that the adoption of this ordinance is exempt from the provisions of the California Environmental Quality Act pursuant to CEQA Guideline sections 15061(b)(3) because it can be seen.

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**SECTION 14.** This ordinance shall be effective on the thirty-first date after the date of its adoption and shall expire upon the earlier of June 30, 2022 or adoption of replacement legislation by the City Council. Upon expiration of this ordinance, the City Clerk shall direct the City's codifier to update the Palo Alto Municipal Code as appropriate.

INTRODUCED: March 8, 2021

PASSED: April 12, 2021

AYES: BURT, DUBOIS, FILSETH, KOU, STONE

NOES: CORMACK, TANAKA

ABSENT:

ABSTENTIONS:

NOT PARTICIPATING:

ATTEST:

DocuSigned by:  
*Beth Minor*  
27523117DA804D7...  
City Clerk

DocuSigned by:  
*T. Dubois*  
DD53585CA6CB4E9...  
Mayor

APPROVED AS TO FORM:

DocuSigned by:  
*Albert Yang*  
15B6C45220134DC...  
Assistant City Attorney

APPROVED:

DocuSigned by:  
*Ed Shikada*  
F2DCA19CCC8D4F9...  
City Manager

DocuSigned by:  
*[Signature]*  
293CF322E1294F6...  
Director of Planning & Development  
Services



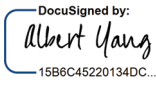
## Certificate Of Completion

Envelope Id: 2FFD3DF938C64D8A8AAD4B626E119FA7	Status: Completed
Subject: Please DocuSign: ORD 5517 Ordinance Amending PAMC Title 18 Ch 18.04 Definitions 18.16 Neighborh...	
Source Envelope:	
Document Pages: 17	Signatures: 5
Certificate Pages: 2	Initials: 0
AutoNav: Enabled	Envelope Originator:
Envelopeld Stamping: Enabled	Danielle Kang
Time Zone: (UTC-08:00) Pacific Time (US & Canada)	250 Hamilton Ave
	Palo Alto , CA 94301
	Danielle.Kang@cityofpaloalto.org
	IP Address: 199.33.32.254

## Record Tracking


Status: Original	Holder: Danielle Kang	Location: DocuSign
4/16/2021 4:40:29 PM	Danielle.Kang@cityofpaloalto.org	
Security Appliance Status: Connected	Pool: StateLocal	
Storage Appliance Status: Connected	Pool: City of Palo Alto	Location: DocuSign

## Signer Events

Signer Events	Signature	Timestamp
Albert Yang	DocuSigned by:  15B6C45220134DC...	Sent: 4/16/2021 4:45:43 PM
Albert.Yang@CityofPaloAlto.org		Viewed: 4/19/2021 10:27:07 AM
Assistant City Attorney		Signed: 4/19/2021 10:28:38 AM
City of Palo Alto		
Security Level: Email, Account Authentication (None)	Signature Adoption: Pre-selected Style Using IP Address: 97.113.131.147	

## Electronic Record and Signature Disclosure:

Not Offered via DocuSign

Jonathan Lait	DocuSigned by:  293CF322E1294F6...	Sent: 4/19/2021 10:28:40 AM
Jonathan.Lait@CityofPaloAlto.org		Viewed: 4/19/2021 4:12:00 PM
Interim Director Planning and Community Environment		Signed: 4/19/2021 4:12:27 PM

City of Palo Alto

Signature Adoption: Uploaded Signature Image

Using IP Address: 99.88.42.180

## Electronic Record and Signature Disclosure:

Not Offered via DocuSign

Ed Shikada	DocuSigned by:  F2DCA19CCC8D4F9...	Sent: 4/19/2021 4:12:30 PM
Ed.Shikada@CityofPaloAlto.org		Viewed: 4/19/2021 5:07:55 PM
Ed Shikada, City Manager		Signed: 4/19/2021 5:08:31 PM

City of Palo Alto

Signature Adoption: Pre-selected Style

Using IP Address: 199.33.32.254

## Electronic Record and Signature Disclosure:

Not Offered via DocuSign

Tom DuBois	DocuSigned by:  DD53585CA8CB4E9...	Sent: 4/19/2021 5:08:33 PM
tomforcouncil@gmail.com		Viewed: 4/26/2021 10:08:06 AM
Security Level: Email, Account Authentication (None)		Signed: 4/26/2021 10:08:30 AM


Signature Adoption: Pre-selected Style

Using IP Address: 24.5.55.204

## Electronic Record and Signature Disclosure:

Not Offered via DocuSign



Signer Events	Signature	Timestamp
Beth Minor beth.minor@cityofpaloalto.org City Clerk City of Palo Alto Security Level: Email, Account Authentication (None)	 DocuSigned by: <i>Beth Minor</i> 27523117DA804D7... Signature Adoption: Pre-selected Style Using IP Address: 199.33.32.254	Sent: 4/26/2021 10:08:32 AM Viewed: 4/26/2021 10:09:22 AM Signed: 4/26/2021 10:09:45 AM

**Electronic Record and Signature Disclosure:**  
 Not Offered via DocuSign

In Person Signer Events	Signature	Timestamp
Editor Delivery Events	Status	Timestamp
Agent Delivery Events	Status	Timestamp
Intermediary Delivery Events	Status	Timestamp
Certified Delivery Events	Status	Timestamp
Carbon Copy Events	Status	Timestamp
Witness Events	Signature	Timestamp
Notary Events	Signature	Timestamp
Envelope Summary Events	Status	Timestamps
Envelope Sent	Hashed/Encrypted	4/16/2021 4:45:43 PM
Certified Delivered	Security Checked	4/26/2021 10:09:22 AM
Signing Complete	Security Checked	4/26/2021 10:09:45 AM
Completed	Security Checked	4/26/2021 10:09:45 AM
Payment Events	Status	Timestamps





## City of Palo Alto City Council Staff Report

(ID # 14167)

Meeting Date: 5/2/2022

Report Type: Consent Calendar

**Title: Approval of Contract No. C22183462 with Macias Gini & O'Connell LLP (MGO) for External Financial Audit Services in an Amount Not to Exceed \$599,319 (Including a 10 Percent Contingency Additional Services Amount of \$54,934) Through March 31, 2025.**

**From: City Manager**

**Lead Department: City Auditor**

### **Recommendation**

The Office of the City Auditor recommends that City Council approve and authorize the City Manager or their designee to execute the external financial auditor contract with Macias Gini & O'Connell LLP (MGO), Contract No. C22183462 (Attachment A), for external financial audit services for fiscal years 2022, 2023 and 2024, in an amount not to exceed \$599,319 (including a 10 percent contingency Additional Services amount of \$54,934), with a contract term of approximately three years through March 31, 2025.

### **Background**

The City Charter requires the City Council, through the City Auditor, to engage an independent certified public accounting firm to conduct the annual external financial audit, and report the results of the audit, in writing, to the City Council. The previous contract was a five-year contract with MGO for a total not to exceed amount of \$875,569 for fiscal years ending on June 30, 2017, through June 30, 2021. Accordingly, in October 2021, the City initiated a formal Request for Proposal (RFP) process that encouraged competition from all qualified firms, including the current external auditors, MGO.

The RFP was publicly posted and sent directly to nine (9) accounting firms. In response, the City received proposals from four audit firms: MGO, Eide Bailly, Maze & Associates, and Vasquez.

### **Discussion**

An evaluation team of four, including the City Auditor, the Chair of the Finance Committee, the Director of the Administrative Services Department / CFO, and the Finance Manager, reviewed and evaluated the four proposals and interviewed three firms including Maze & Associates, Eide Bailly, and MGO.



The RFP evaluation process considered the following evaluation criteria/factors:

- Quality and completeness of the proposal
- Quality, performance, and effectiveness of the services to be provided
- Firm and team member experience
- Cost to the City
- Consultant's financial condition
- Consultant's ability to perform the work within the specified time
- Record of prior performance with similar entities
- Availability for year-round consulting
- Compliance with laws and regulations

As part of the evaluation, the team contacted references for each of the proposed vendors. The reference checks resulted in generally positive feedback for each vendor, and no discernable "red flags".

The evaluation committee was concerned with the experience each audit firm had in working with utilities, including electric utilities. As such, both the RFP and the interviews of each firm sought to ascertain whether the respondents were experienced in working with municipal utilities. MGO demonstrated experience in the RFP and responded well to interview questions focused on this experience.

MGO was the top rated (or tied for the top rated) firm amongst the three finalists in all but one of the above-listed evaluation factors – that factor being cost to the City. Despite being the more costly option to the City, the overall firm and team experience, use of technology in the audit process, availability during the year, demonstrated understanding of the City's needs, and utility experience, the evaluation team scored the MGO proposal and interview the highest taking all evaluation factors into account, and is thus recommending the for external financial audit services to MGO.

The City does not have a formal rotation policy for its external auditor. With that said, MGO proposed a rotation of audit management.

The attached contract has been negotiated by and between the parties. If approved by City Council, the City Manager will execute the contract on behalf of the City.

### **Resource Impact**

The total three-year cost not to exceed \$599,319 will be funded in the City Auditor's Office operating budget beginning in Fiscal Year 2023 through the life of the contract, subject to Council appropriation of funds for future fiscal year budgets. The payment per year for professional services and reimbursable expenses shall not exceed:



2022 – 2023 \$193,600  
2023 – 2024 \$199,408  
2024 – 2025 \$206,311

**Stakeholder Engagement**

The Office of the City Auditor worked primarily with the Administrative Services Department and the Chair of the Finance Committee in the evaluation process. The Office of the City Attorney assisted in negotiation of the contract. The request for proposal was publicly advertised on the City's application for solicitations.

**Policy Implications**

This recommendation does not present any changes to existing City policies and aligns with the City's Charter requirements.

**Environmental Review**

Environmental review is not applicable to this activity.

**Attachments:**

- **Attachment9.a:** Attachment A: Macias Gini & O'Connell LLP (MGO) Contract; C22183462



**CITY OF PALO ALTO CONTRACT NO. C22183462****AGREEMENT FOR PROFESSIONAL SERVICES****BETWEEN THE CITY OF PALO ALTO AND MACIAS GINI & O'CONNELL LLP**

This Agreement for Professional Services (this "Agreement") is entered into as of the 25th day of March, 2022 (the "Effective Date"), by and between the **CITY OF PALO ALTO**, a California chartered municipal corporation ("CITY"), and **MACIAS GINI & O'CONNELL LLP**, a Limited Liability Partnership, located at 2121 N. California Blvd., Suite 750, Walnut Creek, CA 94596 ("CONSULTANT").

The following recitals are a substantive portion of this Agreement and are fully incorporated herein by this reference:

**RECITALS**

A. CITY intends to engage a consultant to provide External Audit Services to the City (the "Project") and desires to engage the Consultant to provide such services in connection with the Project (the "Services", as detailed more fully in Exhibit A).

B. CONSULTANT represents that it, its employees and subconsultants, if any, possess the necessary professional expertise, qualifications, and capability, and all required licenses and/or certifications to provide the Services.

C. CITY, in reliance on these representations, desires to engage CONSULTANT to provide the Services as more fully described in Exhibit A, entitled "SCOPE OF SERVICES".

NOW, THEREFORE, in consideration of the recitals, covenants, terms, and conditions, in this Agreement, the parties agree as follows:

**SECTION 1. SCOPE OF SERVICES.** CONSULTANT shall perform the Services described in Exhibit A in accordance with the terms and conditions contained in this Agreement. The performance of all Services shall be to the reasonable satisfaction of CITY.

**SECTION 2. TERM.** The term of this Agreement shall be from the date of its full execution through March 31, 2025 unless terminated earlier pursuant to Section 19 (Termination) of this Agreement.

**SECTION 3. SCHEDULE OF PERFORMANCE.** Time is of the essence in the performance of Services under this Agreement. CONSULTANT shall complete the Services within the term of this Agreement and in accordance with the schedule set forth in Exhibit B, entitled "SCHEDULE OF PERFORMANCE". Any Services for which times for performance are not specified in this Agreement shall be commenced and completed by CONSULTANT in a reasonably prompt and timely manner based upon the circumstances and direction communicated to the CONSULTANT. CITY's agreement to extend the term or the schedule for performance shall not preclude recovery of damages for delay if the extension is required due to the fault of CONSULTANT.



**SECTION 4. NOT TO EXCEED COMPENSATION.** The compensation to be paid to CONSULTANT for performance of the Services shall be based on the compensation structure detailed in Exhibit C, entitled "COMPENSATION," including any reimbursable expenses specified therein, and the maximum total compensation shall not exceed **Five Hundred Forty-Four Thousand Eight Hundred Thirty-Five Dollars (\$544,835.00)**. The hourly schedule of rates, if applicable, is set out in Exhibit C-1, entitled "SCHEDULE OF RATES." Any work performed or expenses incurred for which payment would result in a total exceeding the maximum compensation set forth in this Section 4 shall be at no cost to the CITY.

**SECTION 5. INVOICES.** In order to request payment, CONSULTANT shall submit monthly invoices to the CITY describing the Services performed and the applicable charges (including, if applicable, an identification of personnel who performed the Services, hours worked, hourly rates, and reimbursable expenses), based upon Exhibit C or, as applicable, CONSULTANT's schedule of rates set forth in Exhibit C-1. If applicable, the invoice shall also describe the percentage of completion of each task. The information in CONSULTANT's invoices shall be subject to verification by CITY. CONSULTANT shall send all invoices to CITY's Project Manager at the address specified in Section 13 (Project Management) below. CITY will generally process and pay invoices within thirty (30) days of receipt of an acceptable invoice.

**SECTION 6. QUALIFICATIONS/STANDARD OF CARE.** All Services shall be performed by CONSULTANT or under CONSULTANT's supervision. CONSULTANT represents that it, its employees and subcontractors, if any, possess the professional and technical personnel necessary to perform the Services required by this Agreement and that the personnel have sufficient skill and experience to perform the Services assigned to them. CONSULTANT represents that it, its employees and subcontractors, if any, have and shall maintain during the term of this Agreement all licenses, permits, qualifications, insurance and approvals of whatever nature that are legally required to perform the Services. All Services to be furnished by CONSULTANT under this Agreement shall meet the professional standard and quality that prevail among professionals in the same discipline and of similar knowledge and skill engaged in related work throughout California under the same or similar circumstances.

**SECTION 7. COMPLIANCE WITH LAWS.** CONSULTANT shall keep itself informed of and in compliance with all federal, state and local laws, ordinances, regulations, and orders that may affect in any manner the Project or the performance of the Services or those engaged to perform Services under this Agreement, as amended from time to time. CONSULTANT shall procure all permits and licenses, pay all charges and fees, and give all notices required by law in the performance of the Services.

**SECTION 8. ERRORS/OMISSIONS.** CONSULTANT is solely responsible for costs, including, but not limited to, increases in the cost of Services, arising from or caused by CONSULTANT's errors and omissions, including, but not limited to, the costs of corrections such errors and omissions, any change order markup costs, or costs arising from delay caused by the errors and omissions or unreasonable delay in correcting the errors and omissions.

**SECTION 9. [OMITTED (COST ESTIMATES).]**

**SECTION 10. INDEPENDENT CONTRACTOR.** CONSULTANT acknowledges and agrees



that CONSULTANT and any agent or employee of CONSULTANT will act as and shall be deemed at all times to be an independent contractor and shall be wholly responsible for the manner in which CONSULTANT performs the Services requested by CITY under this Agreement. CONSULTANT and any agent or employee of CONSULTANT will not have employee status with CITY, nor be entitled to participate in any plans, arrangements, or distributions by CITY pertaining to or in connection with any retirement, health or other benefits that CITY may offer its employees. CONSULTANT will be responsible for all obligations and payments, whether imposed by federal, state or local law, including, but not limited to, FICA, income tax withholdings, workers' compensation, unemployment compensation, insurance, and other similar responsibilities related to CONSULTANT's performance of the Services, or any agent or employee of CONSULTANT providing same. Nothing in this Agreement shall be construed as creating an employment or agency relationship between CITY and CONSULTANT or any agent or employee of CONSULTANT. Any terms in this Agreement referring to direction from CITY shall be construed as providing for direction as to policy and the result of CONSULTANT's provision of the Services only, and not as to the means by which such a result is obtained.

**SECTION 11. ASSIGNMENT.** The parties agree that the expertise and experience of CONSULTANT are material considerations for this Agreement. CONSULTANT shall not assign or transfer any interest in this Agreement nor the performance of any of CONSULTANT's obligations hereunder without the prior written approval of the City Manager. Any purported assignment made without the prior written approval of the City Manager will be void and without effect. Subject to the foregoing, the covenants, terms, conditions and provisions of this Agreement will apply to, and will bind, the heirs, successors, executors, administrators and assignees of the parties.

**SECTION 12. SUBCONTRACTING.** CONSULTANT shall not subcontract any portion of the Services to be performed under this Agreement without the prior written authorization of the City Manager or designee. In the event CONSULTANT does subcontract any portion of the work to be performed under this Agreement, CONSULTANT shall be fully responsible for all acts and omissions of subcontractors.

**SECTION 13. PROJECT MANAGEMENT.** CONSULTANT will assign David Bullock as the CONSULTANT's Project Manager to have supervisory responsibility for the performance, progress, and execution of the Services and represent CONSULTANT during the day-to-day performance of the Services. If circumstances cause the substitution of the CONSULTANT's Project Manager or any other of CONSULTANT's key personnel for any reason, the appointment of a substitute Project Manager and the assignment of any key new or replacement personnel will be subject to the prior written approval of the CITY's Project Manager. CONSULTANT, at CITY's request, shall promptly remove CONSULTANT personnel who CITY finds do not perform the Services in an acceptable manner, are uncooperative, or present a threat to the adequate or timely completion of the Services or a threat to the safety of persons or property.

CITY's Project Manager is Kyle O'Rourke, Office of the City Auditor, 250 Hamilton Avenue, Palo Alto, CA, 94301, Telephone: (847)436-2671. CITY's Project Manager will be CONSULTANT's point of contact with respect to performance, progress and execution of the Services. CITY may designate an alternate Project Manager from time to time.

**SECTION 14. OWNERSHIP OF MATERIALS.** Except for CONSULTANT's Audit



Documentation, as defined herein below which shall remain the exclusive property of CONSULTANT, all work product, including without limitation, all writings, drawings, studies, sketches, photographs, plans, reports, specifications, computations, models, recordings, data, documents, and other materials and copyright interests developed under this Agreement, in any form or media, shall be and remain the exclusive property of CITY without restriction or limitation upon their use. CONSULTANT agrees that all copyrights which arise from creation of the work product pursuant to this Agreement are vested in CITY, and CONSULTANT hereby waives and relinquishes all claims to copyright or other intellectual property rights in favor of CITY. Neither CONSULTANT nor its subcontractors, if any, shall make any of such work product available to any individual or organization without the prior written approval of the City Manager or designee. CONSULTANT makes no representation of the suitability of the work product for use in or application to circumstances not contemplated by the Scope of Services.

“Audit Documentation” shall mean all records related to the Agreement, excluding financial records that report CONSULTANT’s professional hours and expenses, that are required by professional standards or CONSULTANT’s internal policies to support the services performed under the Agreement. Examples of Audit Documentation are audit programs, analysis, memoranda, letters of confirmation and representation, extract or copies of City documents, and schedules or commentaries prepared by or obtained by CONSULTANT. Audit Documentation may be in paper form, electronic form, or other media. The reports issued by the CONSULTANT to CITY shall become the property of CITY.

**SECTION 15. AUDITS.** CONSULTANT agrees to permit CITY and its authorized representatives to audit, at any reasonable time during the term of this Agreement and for four (4) years from the date of final payment, CONSULTANT’s records pertaining to matters covered by this Agreement, including without limitation records demonstrating compliance with the requirements of Section 10 (Independent Contractor). CONSULTANT further agrees to maintain and retain accurate books and records in accordance with generally accepted accounting principles for at least four (4) years after the expiration or earlier termination of this Agreement or the completion of any audit hereunder, whichever is later.

**SECTION 16. INDEMNITY.**

To the fullest extent permitted by law, CONSULTANT shall indemnify, defend and hold harmless CITY, its Council members, officers, employees and agents (each an “Indemnified Party”) from and against any and all demands, claims, or liability of any nature, including death or injury to any person, property damage or any other loss, including all costs and expenses of whatever nature including attorney’s fees, experts fees, court costs and disbursements (“Claims”) resulting from, arising out of or in any manner related to performance or nonperformance by CONSULTANT, its officers, employees, agents or contractors under this Agreement, regardless of whether or not it is caused in part by an Indemnified Party.

16.2. Notwithstanding the above, nothing in this Section 16 shall be construed to require CONSULTANT to indemnify an Indemnified Party from a Claim arising from the active negligence or willful misconduct of an Indemnified Party that is not contributed to by any act of, or by any omission to perform a duty imposed by law or agreement by, CONSULTANT, its officers, employees, agents or contractors under this Agreement.



16.3. The acceptance of CONSULTANT's Services and duties by CITY shall not operate as a waiver of the right of indemnification. The provisions of this Section 16 shall survive the expiration or early termination of this Agreement.

**SECTION 17. WAIVERS.** No waiver of a condition or nonperformance of an obligation under this Agreement is effective unless it is in writing in accordance with Section 29.4 of this Agreement. No delay or failure to require performance of any provision of this Agreement shall constitute a waiver of that provision as to that or any other instance. Any waiver granted shall apply solely to the specific instance expressly stated. No single or partial exercise of any right or remedy will preclude any other or further exercise of any right or remedy.

**SECTION 18. INSURANCE.**

18.1. CONSULTANT, at its sole cost and expense, shall obtain and maintain, in full force and effect during the term of this Agreement, the insurance coverage described in Exhibit D, entitled "INSURANCE REQUIREMENTS". CONSULTANT and its contractors, if any, shall obtain a policy endorsement naming CITY as an additional insured under any general liability or automobile policy or policies.

18.2. All insurance coverage required hereunder shall be provided through carriers with AM Best's Key Rating Guide ratings of A-:VII or higher which are licensed or authorized to transact insurance business in the State of California. Any and all contractors of CONSULTANT retained to perform Services under this Agreement will obtain and maintain, in full force and effect during the term of this Agreement, identical insurance coverage, naming CITY as an additional insured under such policies as required above.

18.3. Certificates evidencing such insurance shall be filed with CITY concurrently with the execution of this Agreement. The certificates will be subject to the approval of CITY's Risk Manager and will contain an endorsement stating that the insurance is primary coverage and will not be canceled, or materially reduced in coverage or limits, by the insurer except after filing with the Purchasing Manager thirty (30) days' prior written notice of the cancellation or modification. If the insurer cancels or modifies the insurance and provides less than thirty (30) days' notice to CONSULTANT, CONSULTANT shall provide the Purchasing Manager written notice of the cancellation or modification within two (2) business days of the CONSULTANT's receipt of such notice. CONSULTANT shall be responsible for ensuring that current certificates evidencing the insurance are provided to CITY's Chief Procurement Officer during the entire term of this Agreement.

18.4. The procuring of such required policy or policies of insurance will not be construed to limit CONSULTANT's liability hereunder nor to fulfill the indemnification provisions of this Agreement. Notwithstanding the policy or policies of insurance, CONSULTANT will be obligated for the full and total amount of any damage, injury, or loss caused by or directly arising as a result of the Services performed under this Agreement, including such damage, injury, or loss arising after the Agreement is terminated or the term has expired.

**SECTION 19. TERMINATION OR SUSPENSION OF AGREEMENT OR SERVICES.**

19.1. The City Manager may suspend the performance of the Services, in whole



or in part, or terminate this Agreement, with or without cause, by giving ten (10) days prior written notice thereof to CONSULTANT. If CONSULTANT fails to perform any of its material obligations under this Agreement, in addition to all other remedies provided under this Agreement or at law, the City Manager may terminate this Agreement sooner upon written notice of termination. Upon receipt of any notice of suspension or termination, CONSULTANT will discontinue its performance of the Services on the effective date in the notice of suspension or termination.

19.2. In event of suspension or termination, CONSULTANT will deliver to the City Manager on or before the effective date in the notice of suspension or termination, any and all work product, as detailed in Section 14 (Ownership of Materials), whether or not completed, prepared by CONSULTANT or its contractors, if any, in the performance of this Agreement. Such work product is the property of CITY, as detailed in Section 14 (Ownership of Materials).

19.3. In event of suspension or termination, CONSULTANT will be paid for the Services rendered and work products delivered to CITY in accordance with the Scope of Services up to the effective date in the notice of suspension or termination; provided, however, if this Agreement is suspended or terminated on account of a default by CONSULTANT, CITY will be obligated to compensate CONSULTANT only for that portion of CONSULTANT's Services provided in material conformity with this Agreement as such determination is made by the City Manager acting in the reasonable exercise of his/her discretion. The following Sections will survive any expiration or termination of this Agreement: 14, 15, 16, 17, 19.2, 19.3, 19.4, 20, 25, 27, 28, 29 and 30.

19.4. No payment, partial payment, acceptance, or partial acceptance by CITY will operate as a waiver on the part of CITY of any of its rights under this Agreement, unless made in accordance with Section 17 (Waivers).

## **SECTION 20. NOTICES.**

All notices hereunder will be given in writing and mailed, postage prepaid, by certified mail, addressed as follows:

To CITY:                      Office of the City Clerk  
                                     City of Palo Alto  
                                     Post Office Box 10250  
                                     Palo Alto, CA 94303

With a copy to the Purchasing Manager

To CONSULTANT: Attention of the Project Manager at the address of  
CONSULTANT recited on the first page of this Agreement.

CONSULTANT shall provide written notice to CITY of any change of address.

## **SECTION 21. CONFLICT OF INTEREST.**

21.1. In executing this Agreement, CONSULTANT covenants that it presently



has no interest, and will not acquire any interest, direct or indirect, financial or otherwise, which would conflict in any manner or degree with the performance of the Services.

21.2. CONSULTANT further covenants that, in the performance of this Agreement, it will not employ subcontractors or other persons or parties having such an interest. CONSULTANT certifies that no person who has or will have any financial interest under this Agreement is an officer or employee of CITY; this provision will be interpreted in accordance with the applicable provisions of the Palo Alto Municipal Code and the Government Code of the State of California, as amended from time to time. CONSULTANT agrees to notify CITY if any conflict arises.

21.3. If the CONSULTANT meets the definition of a “Consultant” as defined by the Regulations of the Fair Political Practices Commission, CONSULTANT will file the appropriate financial disclosure documents required by the Palo Alto Municipal Code and the Political Reform Act of 1974, as amended from time to time.

## **SECTION 22. NONDISCRIMINATION; COMPLIANCE WITH ADA.**

22.1. As set forth in Palo Alto Municipal Code Section 2.30.510, as amended from time to time, CONSULTANT certifies that in the performance of this Agreement, it shall not discriminate in the employment of any person due to that person’s race, skin color, gender, gender identity, age, religion, disability, national origin, ancestry, sexual orientation, pregnancy, genetic information or condition, housing status, marital status, familial status, weight or height of such person. CONSULTANT acknowledges that it has read and understands the provisions of Section 2.30.510 of the Palo Alto Municipal Code relating to Nondiscrimination Requirements and the penalties for violation thereof, and agrees to meet all requirements of Section 2.30.510 pertaining to nondiscrimination in employment.

22.2. CONSULTANT understands and agrees that pursuant to the Americans Disabilities Act (“ADA”), programs, services and other activities provided by a public entity to the public, whether directly or through a contractor or subcontractor, are required to be accessible to the disabled public. CONSULTANT will provide the Services specified in this Agreement in a manner that complies with the ADA and any other applicable federal, state and local disability rights laws and regulations, as amended from time to time. CONSULTANT will not discriminate against persons with disabilities in the provision of services, benefits or activities provided under this Agreement.

**SECTION 23. ENVIRONMENTALLY PREFERRED PURCHASING AND ZERO WASTE REQUIREMENTS.** CONSULTANT shall comply with the CITY’s Environmentally Preferred Purchasing policies which are available at CITY’s Purchasing Department, hereby incorporated by reference and as amended from time to time. CONSULTANT shall comply with waste reduction, reuse, recycling and disposal requirements of CITY’s Zero Waste Program. Zero Waste best practices include, first, minimizing and reducing waste; second, reusing waste; and, third, recycling or composting waste. In particular, CONSULTANT shall comply with the following Zero Waste requirements:

(a) All printed materials provided by CONSULTANT to CITY generated from a personal computer and printer including but not limited to, proposals, quotes, invoices, reports, and public education materials, shall be double-sided and printed on a minimum of 30% or greater



post-consumer content paper, unless otherwise approved by CITY's Project Manager. Any submitted materials printed by a professional printing company shall be a minimum of 30% or greater post-consumer material and printed with vegetable-based inks.

(b) Goods purchased by CONSULTANT on behalf of CITY shall be purchased in accordance with CITY's Environmental Purchasing Policy including but not limited to Extended Producer Responsibility requirements for products and packaging. A copy of this policy is on file at the Purchasing Department's office.

(c) Reusable/returnable pallets shall be taken back by CONSULTANT, at no additional cost to CITY, for reuse or recycling. CONSULTANT shall provide documentation from the facility accepting the pallets to verify that pallets are not being disposed.

#### **SECTION 24. COMPLIANCE WITH PALO ALTO MINIMUM WAGE ORDINANCE.**

CONSULTANT shall comply with all requirements of the Palo Alto Municipal Code Chapter 4.62 (Citywide Minimum Wage), as amended from time to time. In particular, for any employee otherwise entitled to the State minimum wage, who performs at least two (2) hours of work in a calendar week within the geographic boundaries of the City, CONSULTANT shall pay such employees no less than the minimum wage set forth in Palo Alto Municipal Code Section 4.62.030 for each hour worked within the geographic boundaries of the City of Palo Alto. In addition, CONSULTANT shall post notices regarding the Palo Alto Minimum Wage Ordinance in accordance with Palo Alto Municipal Code Section 4.62.060.

**SECTION 25. NON-APPROPRIATION.** This Agreement is subject to the fiscal provisions of the Charter of the City of Palo Alto and the Palo Alto Municipal Code, as amended from time to time. This Agreement will terminate without any penalty (a) at the end of any fiscal year in the event that funds are not appropriated for the following fiscal year, or (b) at any time within a fiscal year in the event that funds are only appropriated for a portion of the fiscal year and funds for this Agreement are no longer available. This Section shall take precedence in the event of a conflict with any other covenant, term, condition, or provision of this Agreement.

#### **SECTION 26. PREVAILING WAGES AND DIR REGISTRATION FOR PUBLIC WORKS CONTRACTS.**

☒ 26.1. **This Project is not subject to prevailing wages and related requirements.** CONSULTANT is not required to pay prevailing wages and meet related requirements under the California Labor Code and California Code of Regulations in the performance and implementation of the Project if the contract:

- (1) is not a public works contract;
- (2) is for a public works construction project of \$25,000 or less, per California Labor Code Sections 1782(d)(1), 1725.5(f) and 1773.3(j); or
- (3) is for a public works alteration, demolition, repair, or maintenance project of \$15,000 or less, per California Labor Code Sections 1782(d)(1), 1725.5(f) and 1773.3(j).

**SECTION 27. CLAIMS PROCEDURE FOR "9204 PUBLIC WORKS PROJECTS".** For purposes of this Section 27, a "9204 Public Works Project" means the erection, construction, alteration, repair, or improvement of any public structure, building, road, or other public improvement of any kind. (Cal. Pub. Cont. Code § 9204.) Per California Public Contract Code



Section 9204, for Public Works Projects, certain claims procedures shall apply, as set forth in Exhibit F, entitled "Claims for Public Contract Code Section 9204 Public Works Projects".



**This Project is not a 9204 Public Works Project.**

## **SECTION 28. CONFIDENTIAL INFORMATION.**

28.1. In the performance of this Agreement, CONSULTANT may have access to CITY's Confidential Information (defined below). CONSULTANT will hold Confidential Information in strict confidence, not disclose it to any third party, and will use it only for the performance of its obligations to CITY under this Agreement and for no other purpose. CONSULTANT will maintain reasonable and appropriate administrative, technical and physical safeguards to ensure the security, confidentiality and integrity of the Confidential Information. Notwithstanding the foregoing, CONSULTANT may disclose Confidential Information to its employees, agents and subcontractors, if any, to the extent they have a need to know in order to perform CONSULTANT's obligations to CITY under this Agreement and for no other purpose, provided that the CONSULTANT informs them of, and requires them to follow, the confidentiality and security obligations of this Agreement.

28.2. "Confidential Information" means all data, information (including without limitation "Personal Information" about a California resident as defined in Civil Code Section 1798 et seq., as amended from time to time) and materials, in any form or media, tangible or intangible, provided or otherwise made available to CONSULTANT by CITY, directly or indirectly, pursuant to this Agreement. Confidential Information excludes information that CONSULTANT can show by appropriate documentation: (i) was publicly known at the time it was provided or has subsequently become publicly known other than by a breach of this Agreement; (ii) was rightfully in CONSULTANT's possession free of any obligation of confidence prior to receipt of Confidential Information; (iii) is rightfully obtained by CONSULTANT from a third party without breach of any confidentiality obligation; (iv) is independently developed by employees of CONSULTANT without any use of or access to the Confidential Information; or (v) CONSULTANT has written consent to disclose signed by an authorized representative of CITY.

28.3. Notwithstanding the foregoing, CONSULTANT may disclose Confidential Information to the extent required by order of a court of competent jurisdiction or governmental body, provided that CONSULTANT will notify CITY in writing of such order immediately upon receipt and prior to any such disclosure (unless CONSULTANT is prohibited by law from doing so), to give CITY an opportunity to oppose or otherwise respond to such order.

28.4. CONSULTANT will notify City promptly upon learning of any breach in the security of its systems or unauthorized disclosure of, or access to, Confidential Information in its possession or control, and if such Confidential Information consists of Personal Information, CONSULTANT will provide information to CITY sufficient to meet the notice requirements of Civil Code Section 1798 et seq., as applicable, as amended from time to time.

28.5. Prior to or upon termination or expiration of this Agreement, CONSULTANT will honor any request from the CITY to return or securely destroy all copies of Confidential Information. All Confidential Information is and will remain the property of the CITY



and nothing contained in this Agreement grants or confers any rights to such Confidential Information on CONSULTANT.

28.6. If selected in Section 30 (Exhibits), this Agreement is also subject to the terms and conditions of the Information Privacy Policy and Cybersecurity Terms and Conditions.

## **SECTION 29. MISCELLANEOUS PROVISIONS.**

29.1. This Agreement will be governed by California law, without regard to its conflict of law provisions.

29.2. In the event that an action is brought, the parties agree that trial of such action will be vested exclusively in the state courts of California in the County of Santa Clara, State of California.

29.3. The prevailing party in any action brought to enforce the provisions of this Agreement may recover its reasonable costs and attorneys' fees expended in connection with that action. The prevailing party shall be entitled to recover an amount equal to the fair market value of legal services provided by attorneys employed by it as well as any attorneys' fees paid to third parties.

29.4. This Agreement, including all exhibits, constitutes the entire and integrated agreement between the parties with respect to the subject matter of this Agreement, and supersedes all prior agreements, negotiations, representations, statements and undertakings, either oral or written. This Agreement may be amended only by a written instrument, which is signed by the authorized representatives of the parties and approved as required under Palo Alto Municipal Code, as amended from time to time.

29.5. If a court of competent jurisdiction finds or rules that any provision of this Agreement is void or unenforceable, the unaffected provisions of this Agreement will remain in full force and effect.

29.6. In the event of a conflict between the terms of this Agreement and the exhibits hereto (per Section 30) or CONSULTANT's proposal (if any), the Agreement shall control. In the event of a conflict between the exhibits hereto and CONSULTANT's proposal (if any), the exhibits shall control.

29.7. The provisions of all checked boxes in this Agreement shall apply to this Agreement; the provisions of any unchecked boxes shall not apply to this Agreement.

29.8. All section headings contained in this Agreement are for convenience and reference only and are not intended to define or limit the scope of any provision of this Agreement.

29.9. This Agreement may be signed in multiple counterparts, which, when executed by the authorized representatives of the parties, shall together constitute a single binding agreement.

**SECTION 30. EXHIBITS.** Each of the following exhibits, if the check box for such exhibit is



selected below, is hereby attached and incorporated into this Agreement by reference as though fully set forth herein:

- ☒ EXHIBIT A: SCOPE OF SERVICES
- ☒ EXHIBIT B: SCHEDULE OF PERFORMANCE
- ☒ EXHIBIT C: COMPENSATION
- ☒ EXHIBIT C-1: SCHEDULE OF RATES
- ☒ EXHIBIT D: INSURANCE REQUIREMENTS


***THIS AGREEMENT IS NOT COMPLETE UNLESS ALL SELECTED EXHIBITS ARE ATTACHED.***



**CONTRACT NO. C22183462 SIGNATURE PAGE**

IN WITNESS WHEREOF, the parties hereto have by their duly authorized representatives executed this Agreement as of the date first above written.

**CITY OF PALO ALTO****MACIAS GINI & O'CONNELL LLP****Officer 1**\_\_\_\_\_  
City Manager

By:  David Bullock  
Name: David Bullock

Title: Partner

APPROVED AS TO FORM:

\_\_\_\_\_  
City Attorney or designee



## **EXHIBIT A SCOPE OF SERVICES**

CONSULTANT shall provide the Services detailed in this Exhibit A, entitled “SCOPE OF SERVICES”.

### **PROJECT SPECIFICATIONS**

Unless otherwise noted, all audit services cover the CITY's fiscal years ending on June 30, 2022 through June 30, 2024, with the option to continue such services for each of the two subsequent fiscal years. Such option shall be contingent upon satisfactory performance. The audit services are to be performed in accordance with generally accepted auditing standards, the standards for financial audits set forth in the United States Government Accountability Office's Government Auditing Standards (2011 revision, or subsequent revisions), the provisions of the federal Single Audit Act of 1984, as amended in 1996, and the United States Office of Management and Budget Circular A-133, Audits states, Local Governments, and Non-Profit Organizations.

Generally accepted accounting principles provide for certain required supplementary information, such as Management's Discussion and Analysis to accompany the CITY's basic financial statements. CONSULTANT shall apply certain limited procedures consisting principally of inquiries of management regarding the methods of measurement and presentation, which the CITY shall affirm to the CONSULTANT in the CITY's Management Letter.

### **Basic Audit Services Required**

CONSULTANT shall audit the CITY's financial statements for the Palo Alto Public Improvement Corporation for the fiscal years ending on June 30, 2022 through June 30, 2024. In providing these services, CONSULTANT shall:

- 1) Audit the basic financial statements and supplementary entity-wide combining and individual fund financial statements included in the CITY's Annual Comprehensive Financial Report (ACFR), including all funds under the jurisdiction and control of the CITY, and render a professional opinion thereon.

Prior to year-end and preferably during March and April, CONSULTANT shall perform interim work to test internal controls of accounting processes. The auditor shall provide the City Auditor and the Director of Administrative Services with a draft management letter on issues noted at completion of the interim work.

- 2) Prepare a management letter to the City Council which will include observations and recommendations noted and identified during the audit. This may include:
  - a) issues regarding internal control structure (e.g., information systems, functions, and procedures),
  - b) items concerning compliance with laws, rules, and regulations,



- c) opportunities for economies and efficiencies inherent in the accounting functions or reporting activities of the CITY, and
  - d) other matters of interest to the City Council and management.
- 3) Audit the financial statements of the Regional Water Quality Control Plant and issue a report thereon in accordance with the requirements in the "Basic Agreement between the Cities of Palo Alto, Mountain View and Los Altos for Acquisition, Construction and Maintenance of a Joint Sewer System", and all addenda thereto.
  - 4) Audit and issue a report on the financial statements of the Palo Alto Public Improvement Corporation, which the CITY has created to finance the construction of specific.
  - 5) Audit the CITY's federal financial assistance program and issue reports thereon in accordance with the provisions of the Single Audit Act of 1984, including 1996 amendments to the Single Audit Act, and any other amendments which become effective during the term of this contract.
  - 6) Audit the CITY's state financial assistance program (Transportation Development Act) and issue reports thereon in accordance with applicable State requirements.
  - 7) Perform agreed upon procedures on the Gann Limit calculation and prepare a letter certifying compliance, as required.
  - 8) Audit the statements of, and issue a report thereon, cable television franchise receipts and disbursements, for the current period, relating to the Joint Operating Agreement signed on October 13, 1988, by and among the City of Palo Alto, Town of Atherton, City of Menlo Park, City of East Palo Alto, the County of San Mateo, and the County of Santa Clara.
  - 9) Prepare the Annual Financial Transactions Report and Annual Street Report, in accordance with instructions from the California State Controller's Office.
  - 10) Assist the CITY in the transition to adhere to any new GASB pronouncements including plan for implementation of GASB Statements such as GASB 87 Leases, GASB 84 Fiduciary Activities, GASB 90 Majority Equity Interests, and additional GASB recommended issues for implementation for fiscal year ending and beyond. To the extent possible, this assistance should be provided during the interim work, and may include reviewing reports, transactions, Management Discussion and Analysis, and GASB 54 Fund Balance Reporting and Governmental Fund Type Definitions.
  - 11) Provide the electronic data used to prepare the ACFR, word processing services, and use the CITY's worksheet and template to prepare the ACFR, including the entity-wide statements. The ACFR should be prepared in the format recommended by the Government Finance Officers Association, in accordance with City standards, and with website-compatibility.
  - 12) Prepare and provide the CITY a ACFR template in Excel and Word formats at the start of the year-end audit. The CITY provides electronic data of financial statements prior to the start of the year-end audit. The template financial reports (Excel) are mapped to the CITY's general ledger accounts by the CONSULTANT. During audit fieldwork, adjustments (prepared by



CITY staff or recommended by CONSULTANT), eliminations, and entity-wide consolidations and reconciliations are compiled and entered into the template by the CONSULTANT. The CONSULTANT will compile the draft ACFR including all financial statements and notes. CITY staff will provide the transmittal letter, Management's Discussion and Analysis, and statistical schedules for the CONSULTANT to include in the ACFR. At the completion of the audit, the CONSULTANT will provide a draft ACFR for CITY review. The ACFR should be prepared in the format recommended by the Government Finance Officers Association, in accordance with CITY requirements, and with website compatibility.

- 13) Meet with the City Auditor or designee independently to review internal control issues noted during the audit. This will include reportable conditions, if applicable, reflected in the draft Management Letter.
- 14) Upon completion of the audit, hold an exit conference with the City Auditor, Director of Administrative Services, and appropriate staff. At this meeting, the CONSULTANT will present the financial statements and first draft of the management letter.
- 15) Attend a minimum of one City Council and one Council Finance Committee meeting for the purpose of discussing the audit and the Management Letter.
- 16) Provide professional publications and software including applicable licenses as described below:
  - a) The CONSULTANT will provide to the City Auditor and Director of Administrative Services or designee, at no additional cost, any publications produced by the CONSULTANT, the American Institute of Certified Public Accountants (AICPA), the Financial Accounting Standards Board (FASB), the Governmental Accounting Standards Board (GASB), the Government Finance Officers Association (GFOA), and the United States Government Accountability Office (GAO). Examples of these publications include:
    - i) AICPA Professional Standards
    - ii) State and Local Governments - Audit and Accounting Guide (AICPA)
    - iii) FASB Accounting Standards
    - iv) Codification of Governmental Accounting and Financial Reporting Standards (GASB)
    - v) Governmental Accounting, Auditing and Financial Reporting (GFOA)
    - vi) Government Auditing Standards (GAO)

In addition, the CONSULTANT will make available any past, current or new GASB statements.

- 17) Provide training for the CITY's personnel regarding important industry developments and technical matters as described below:

GASB pronouncements and major projects may significantly impact the CITY's financial reporting over the next several years. The CONSULTANT will provide the CITY, at no additional cost, with proactive guidance on complying with such requirements. Formal training classes will be offered to the City Auditor and Director of Administrative Services or designee regarding industry developments and new accounting regulations.



## **EXHIBIT B**

### **SCHEDULE OF PERFORMANCE**

CONSULTANT shall perform the Services so as to complete each milestone on the timelines identified below.

1) CONSULTANT shall deliver the following items:

Items 1-4 are to be delivered to the City Auditor. For items 5-8, one courtesy copy is to be delivered to the City Auditor and the number of the copies indicated below are to be delivered to the Director of Administrative Services Department. The report issuance dates are shown for the fiscal year ending June 30, 2022. The report issuance dates for subsequent fiscal years are expected to be around the same dates, with the exact dates to be determined.

- a) Five (5) draft reports by October 24, 2022 or one week after fieldwork concludes at the exit conference and five (5) final bound reports by November 14, 2022 on the following:

Palo Alto Improvement Corporation  
Regional Water Quality Control Plant  
Transportation Development Act

- b) A copy of the comprehensive Management Letter delivered to the City Auditor and to the Director of Administrative Services as follows:

Draft Management Letter for interim work

May 31, 2022 (for subsequent years, it is anticipated that the letter be completed around mid-April)

Draft Management Letter for completed fieldwork

October 7, 2022 or one week after fieldwork concludes at the exit conference

Final comprehensive Management Letter

November 14, 2022

- c) Seven (7) bound copies of the cable report on November 14, 2022.
- d) Two (2) original copies and a complete electronic version in a website-compatible format of the Annual Comprehensive Financial Report, including the Single Audit Report, on November 14, 2022.
- e) Forty (40) (30 in color) bound copies of the Annual Comprehensive Financial Report including the Opinion Letter and the Single Audit Report by November 14, 2022. Also, provide one copy to the City Auditor.



- f) Five (5) copies of the Gann Limit Letter on May 30, 2022. Also, provide one copy to the City Auditor.
  - g) Two (2) copies of the Annual Financial Transactions Report on November 14, 2022, Annual Street Report on December 16, 2022, to be delivered to the CITY's Accounting Manager before the due date for signature and mailing. Also, provide one copy of each report to the City Auditor.
- 2) Meet with the City Auditor and the Assistant Director of Administrative Services or their designees on a weekly basis during the audit engagement, to report on the progress of CONSULTANT's examinations and on their preliminary audit findings and recommendations.
  - 3) Provide the Director of Administrative Services with comments to responses on issues noted at completion of the interim audit work (Accounting Issues memo). The CONSULTANT's comments will be provided within three weeks.
  - 4) Schedule for Audit of the Fiscal Year ending June 30, 2022 (exact dates to be determined)

Interim Work	May 2, 2022 (for subsequent years, it is anticipated that interim work be completed in March and April)
Fieldwork Completed	September 30, 2022
Initial Draft Report	October 14, 2022
Final Report	October 31, 2022
Presentation of Audit Results to Finance Committee and City Council	December 6, 2022.

- 5) The City Auditor may, upon notice and showing of good cause therefore given and made by the CONSULTANT at least fifteen (15) days before the above scheduled dates, grant an extension of time for completion of such audit and completion and delivery of such reports and Management Letter for a reasonable period of time after the specified delivery dates.



## **EXHIBIT C COMPENSATION**

CITY agrees to compensate CONSULTANT for the Services performed in accordance with the terms and conditions of this Agreement, including Services, any specified reimbursable expenses, and Additional Services (if any, per Section 4 of the Agreement), based on the hourly rate schedule attached as Exhibit C-1.

The compensation to be paid to CONSULTANT under this Agreement for all Services, any specified reimbursable expenses, and Additional Services (if any, per Section 4), shall not exceed the amount(s) stated in Section 4 of this Agreement. CONSULTANT agrees to complete all Services, any specified reimbursable expenses, and Additional Services (if any, per Section 4), within this/these amount(s). Any work performed or expenses incurred for which payment would result in a total exceeding the maximum amount of compensation set forth in this Agreement shall be at no cost to the CITY.

### **REIMBURSABLE EXPENSES**

CONSULTANT'S ordinary business expenses, such as administrative, overhead, administrative support time/overtime, information systems, software and hardware, photocopying, telecommunications (telephone, internet), in-house printing, insurance and other ordinary business expenses, are NOT included within the scope of payment for Services and are NOT reimbursable expenses hereunder.

The expenses (by type, e.g. travel) for which CONSULTANT will be reimbursed are: **NONE** up to the not-to-exceed amount of: **\$0.00**.



**EXHIBIT C-1  
SCHEDULE OF RATES**

CONSULTANT's schedule of rates is as follows:

<b>Position</b>	<b>FY 2021-2022 Hourly Rate</b>
Partner/Director	\$350
Manager	\$240
IT Consultant	\$245
Auditor In Charge	\$175
Staff Auditor	\$135
Support Staff	\$90



## EXHIBIT D INSURANCE REQUIREMENTS

CONSULTANTS TO THE CITY OF PALO ALTO (CITY), AT THEIR SOLE EXPENSE, SHALL FOR THE TERM OF THE CONTRACT OBTAIN AND MAINTAIN INSURANCE IN THE AMOUNTS FOR THE COVERAGE SPECIFIED BELOW, **AFFORDED BY COMPANIES WITH AM BEST'S KEY RATING OF A-VII, OR HIGHER, LICENSED OR AUTHORIZED TO TRANSACT INSURANCE BUSINESS IN THE STATE OF CALIFORNIA.**

AWARD IS CONTINGENT ON COMPLIANCE WITH CITY'S INSURANCE REQUIREMENTS AS SPECIFIED HEREIN.

AWARD IS CONTINGENT ON COMPLIANCE WITH CITY'S INSURANCE REQUIREMENTS AS SPECIFIED HEREIN.				
REQUIRED	TYPE OF COVERAGE	REQUIREMENT	MINIMUM LIMITS	
			EACH OCCURRENCE	AGGREGATE
YES YES	WORKER'S COMPENSATION EMPLOYER'S LIABILITY	STATUTORY STATUTORY	STATUTORY	STATUTORY
YES	GENERAL LIABILITY, INCLUDING PERSONAL INJURY, BROAD FORM PROPERTY DAMAGE BLANKET CONTRACTUAL, AND FIRE LEGAL LIABILITY	BODILY INJURY	\$1,000,000	\$1,000,000
		PROPERTY DAMAGE	\$1,000,000	\$1,000,000
		BODILY INJURY & PROPERTY DAMAGE COMBINED.	\$1,000,000	\$1,000,000
YES	AUTOMOBILE LIABILITY, INCLUDING ALL OWNED, HIRED, NON-OWNED	BODILY INJURY	\$1,000,000	\$1,000,000
		- EACH PERSON	\$1,000,000	\$1,000,000
		- EACH OCCURRENCE	\$1,000,000	\$1,000,000
		PROPERTY DAMAGE	\$1,000,000	\$1,000,000
		BODILY INJURY AND PROPERTY DAMAGE, COMBINED	\$1,000,000	\$1,000,000
YES	PROFESSIONAL LIABILITY, INCLUDING, ERRORS AND OMISSIONS, MALPRACTICE (WHEN APPLICABLE), AND NEGLIGENT PERFORMANCE	ALL DAMAGES	\$1,000,000	
YES	<b>THE CITY OF PALO ALTO IS TO BE NAMED AS AN ADDITIONAL INSURED:</b> CONSULTANT, AT ITS SOLE COST AND EXPENSE, SHALL OBTAIN AND MAINTAIN, IN FULL FORCE AND EFFECT THROUGHOUT THE ENTIRE TERM OF ANY RESULTANT AGREEMENT, THE INSURANCE COVERAGE HEREIN DESCRIBED, INSURING NOT ONLY CONSULTANT AND ITS SUBCONSULTANTS, IF ANY, BUT ALSO, WITH THE EXCEPTION OF WORKERS' COMPENSATION, EMPLOYER'S LIABILITY AND PROFESSIONAL INSURANCE, <b>NAMING AS ADDITIONAL INSUREDS CITY, ITS COUNCIL MEMBERS, OFFICERS, AGENTS, AND EMPLOYEES.</b>			

I. INSURANCE COVERAGE MUST INCLUDE:

- A. A CONTRACTUAL LIABILITY ENDORSEMENT PROVIDING INSURANCE COVERAGE FOR CONSULTANT'S AGREEMENT TO INDEMNIFY CITY.

II. THE CONSULTANT MUST SUBMIT CERTIFICATES(S) OF INSURANCE EVIDENCING REQUIRED COVERAGE AT THE FOLLOWING URL: [HTTPS://WWW.PLANETBIDS.COM/PORTAL/PORTAL.CFM?COMPANYID=25569](https://www.planetbids.com/portal/portal.cfm?companyid=25569)

III. ENDORSEMENT PROVISIONS WITH RESPECT TO THE INSURANCE AFFORDED TO ADDITIONAL INSUREDS:

A. PRIMARY COVERAGE

WITH RESPECT TO CLAIMS ARISING OUT OF THE OPERATIONS OF THE NAMED INSURED, INSURANCE AS AFFORDED BY THIS POLICY IS PRIMARY AND IS NOT ADDITIONAL TO OR CONTRIBUTING WITH ANY OTHER INSURANCE CARRIED BY OR FOR THE BENEFIT OF THE ADDITIONAL INSUREDS.



B. CROSS LIABILITY

THE NAMING OF MORE THAN ONE PERSON, FIRM, OR CORPORATION AS INSUREDS UNDER THE POLICY SHALL NOT, FOR THAT REASON ALONE, EXTINGUISH ANY RIGHTS OF THE INSURED AGAINST ANOTHER, BUT THIS ENDORSEMENT, AND THE NAMING OF MULTIPLE INSUREDS, SHALL NOT INCREASE THE TOTAL LIABILITY OF THE COMPANY UNDER THIS POLICY.

C. NOTICE OF CANCELLATION

1. IF THE POLICY IS CANCELED BEFORE ITS EXPIRATION DATE FOR ANY REASON OTHER THAN THE NON-PAYMENT OF PREMIUM, THE CONSULTANT SHALL PROVIDE CITY AT LEAST A THIRTY (30) DAY WRITTEN NOTICE BEFORE THE EFFECTIVE DATE OF CANCELLATION.
2. IF THE POLICY IS CANCELED BEFORE ITS EXPIRATION DATE FOR THE NON-PAYMENT OF PREMIUM, THE CONSULTANT SHALL PROVIDE CITY AT LEAST A TEN (10) DAY WRITTEN NOTICE BEFORE THE EFFECTIVE DATE OF CANCELLATION.

**EVIDENCE OF INSURANCE AND OTHER RELATED NOTICES ARE REQUIRED TO BE FILED WITH THE CITY OF PALO ALTO AT THE FOLLOWING URL:**

<HTTPS://WWW.PLANETBIDS.COM/PORTAL/PORTAL.CFM?COMPANYID=25569>

**OR**

[HTTP://WWW.CITYOFPALOALTO.ORG/GOV/DEPTS/ASD/PLANET\\_BIDS\\_HOW\\_TO.ASP](HTTP://WWW.CITYOFPALOALTO.ORG/GOV/DEPTS/ASD/PLANET_BIDS_HOW_TO.ASP)





## City of Palo Alto City Council Staff Report

(ID # 14163)

Meeting Date: 5/2/2022

Report Type: Consent Calendar

**Title: Policy and Services Committee Recommends the City Council Accept the City Auditor's Quarterly Status Report (Q2 of Fiscal Year 2021)**

**From: City Manager**

**Lead Department: City Auditor**

### **Recommended Motion**

The Policy and Services Committee and the City Auditor recommend the City Council take the following action:

- 1) Accept the Office of the City Auditor's Quarterly Status Report covering October – December 2021

### **Discussion**

*Quarterly Status Report – October – December 2021*

In accordance with Task 5 [of our agreement with the City](#), Baker Tilly is required to report quarterly on a variety of topics, generally including progress to plan.

Our presentation includes the following high level status updates organized by task within our agreement with the City:

- Task 1 – Citywide Risk Assessment
  - Kicked-off the Risk Assessment process to be reported in Q3 of FY22 (March 2022)
- Task 2 – Annual Audit Plan
  - Kicked-off the Audit Planning process to be reported in Q3 of FY22 (March 2022)
- Task 3 – Financial Audit
  - Solicited and evaluated proposals for the Financial Auditor, to be presented to the Finance Committee in March/April 2022
  - Presented, in conjunction with the Administrative Services Department, the Financial Audit report prepared by Macias, Gini, O'Connell LLP ([Action Minutes](#); [Video](#))
- Task 4 – Execute Audit Plan



- Presented the Asset Management Audit Activity Report to the Policy & Services Committee, which was subsequently approved by City Council ([Action Minutes](#), [Video](#))
- Presented the IT Risk Management Audit Activity Report to Policy & Services Committee, which was subsequently approved by City Council ([Action Minutes](#), [Video](#))
- Presented the Construction Project Controls Audit Report to the Policy & Services Committee, which was subsequently approved by City Council in January 2022 ([Action Minutes](#), [Video](#))
- Presented the Power Purchase Agreement Report to the Policy & Services Committee, to be presented to Council for approval in Q3 of FY22 ([Action Minutes](#), [Video](#))
- Presented the Initial Public Safety Building Initial Monitoring Memo to the Policy & Services Committee, which was subsequently approved by City Council in January 2022 ([Video](#))
- Initiated the Power Purchase Agreement Audit Activity as approved by City Council on November 15, 2021 ([Action Minutes](#), [Video](#))
- Sought and received Policy & Services Approval for a Task Order to Complete a Wire Payment Process and Controls Review ([Video](#))
- Task 5 – Periodic Reporting and Hotline Monitoring
  - No hotline reports were received during this period.
  - Presented the Office of the City Auditor’s Annual Report ([Action Minutes](#); [Video](#))
- Task 6 – City Auditor evaluation
  - N/A

The Quarterly Status Report was unanimously approved by the Policy and Services Committee on March 8, 2022 ([#14011](#)).

### **Timeline, Resource Impact, Policy Implications**

The task order and corresponding budget associated with this report by the City Auditor were previously approved. Thus, this report has no impact on City resources. However, it can be noted that the activities described reflect the dedication of significant resources across City departments to support these reviews.

### **Environmental Review**

The Committee’s approval of the quarterly report does not meet the definition of a “project” under Public Resources Code 21065, therefore California Environmental Quality Act review is not required.





## City of Palo Alto City Council Staff Report

(ID # 14312)

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Meeting Date: 5/2/2022

Report Type: Consent Calendar

**Title: SECOND READING: Adoption of an Ordinance Amending Existing Palo Alto Municipal Code Chapter 5.30, Disposable Foodware Items and Other Disposable Products, to Comply with California Assembly Bill 1276 (Single-Use Foodware Accessories and Standard Condiments) Requiring Additional Restrictions on the Use of Disposable Foodware and Condiments (FIRST READING: April 18, 2022: PASSED 7-0)**

**From: City Manager**

**Lead Department: Public Works**

This was heard by the City Council on April 18, 2022 for a first reading and was approved 7- 0. No changes were made to the Ordinance; it is now before you for a second reading.

**Attachments:**

- **Attachment11.a:** Attachment A - Updates to PAMC 5.30 Redline



## ATTACHMENT A

\*Yet to be passed\*

Ordinance No. \_\_\_\_\_

Ordinance of the Council of the City of Palo Alto Amending Chapter 5.30  
(Disposable Foodware Items and Other Disposable Products) Title 5 (Health  
and Sanitation) of the Palo Alto Municipal Code to Conform with Changes in  
State Law Related to Single-Use Foodware accessories and Standard  
Condiments

The Council of the City of Palo Alto ORDAINS as follows:

SECTION 1. Findings and Declarations. The City Council finds and declares as follows:

A. Disposable foodware items are intended to be used once then discarded. These items pose waste management challenges and can persist in the environment for many years, causing harm to wildlife and blight to waterways. The production, use and disposal of these items have significant environmental impacts, including environmental contamination; consumption of energy, water, and non-renewable polluting fossil fuels; emissions of greenhouse gases; release of air and water pollutants; depletion of natural resources; litter on streets and in waterways; plastic pollution; and increased litter clean-up and waste management costs.

B. Plastics in waterways and oceans break down into smaller pieces that are not biodegradable. Among other hazards, plastic debris attracts and concentrates ambient pollutants in seawater and freshwater, which can transfer to fish, other seafood and salt that is eventually sold for human consumption.

C. The practice of freely giving consumers disposable foodware encourages consumers, retailers, and food vendors to pay little attention to the quantity of disposable packaging products they consume and the associated environmental impact.

D. The City of Palo Alto updated its Zero Waste Plan in 2018, with new provisions designed to help the City reach its goal of 95% diversion of materials from landfills by 2030, and 80% reduction of greenhouse gases by the same year. Disposable foodware poses difficulties for composting or recycling, and therefore hampers Palo Alto's goal of zero waste.

E. Policies that restrict the use of disposable foodware encourage reduction of pollutants and are crucial for conserving resources and protecting the environment, and integral to Palo Alto's goal of zero waste.



## ATTACHMENT A

SECTION 2. Section 5.30.010 (Definitions) of Chapter 5.30 (Disposable Foodware Items and Other Disposable Products of Title 5 (Health and Sanitation) of the Palo Alto Municipal Code is amended as follows (new text underlined and deleted text struck through):

5.30.010 Definitions.

(a) "City Facilities" refers to any real property, building, structure or vehicle owned or operated by the City of Palo Alto, its agents, departments and franchises.

(b) "Compostable" means items deemed acceptable within the city's compost collection program as determined by the Director of Public Works and identified on the city's website.

(c) "Condiment" means relishes, spices, sauces, confections, or seasonings that require no additional preparation and that are usually used on a food item after preparation, including ketchup, mustard, mayonnaise, soy sauce, hot sauce, salsa, salt, pepper, sugar, and sugar substitutes.

~~(d)~~ "Disposable" means items designed to be used once or a limited number of times and then discarded, whether the item is non-recyclable, Recyclable or Compostable.

~~(e)~~ "Food Service Container" means a product used by Food Service Establishments for serving or transporting prepared and ready-to-consume food or beverages. This includes but is not limited to plates, cups, bowls, lids, trays and hinged or lidded containers.

~~(f)~~ "Food Service Establishment" means any establishment, located or providing food within the City of Palo Alto, which provides prepared and ready to consume food or beverages, for public consumption including but not limited to any Retail Service Establishment, eating and drinking service (as defined in Title 18), takeout service (as defined in Title 18), supermarket, delicatessen, restaurant, food vendor, sales outlet, shop, cafeteria, catering truck or vehicle, cart or other sidewalk or outdoor vendor or caterer which provides prepared and ready-to-consume food or beverages, for public consumption, whether open to the general public or limited to certain members of the public (i.e., company cafeteria for employees). For the purpose of this ordinance "Food Service Establishment" shall include all entities found in "Food Facility" as listed in CA HSC Ch.2 Section 113789(a).

~~(g)~~ "Foodware Item" means any item used or provided by Food Service Establishments to serve or consume food or beverages. Foodware Items include Food Service Containers, condiment cups and packets, straws, utensils (forks, spoons, sporks, knives, chopsticks), drink stirrers, beverage spill plugs, napkins, and other drink or food accoutrements.

~~(h)~~ "Plastic Foam" means blown expanded and extruded plastic foams made from polystyrene or other resins which are processed by any number of techniques including, but not limited to, fusion of monomer spheres (expanded bead plastic), injection molding, foam molding and extrusion-blown molding (extruded foam plastic). Expanded polystyrene and other plastic foam resins are generally used to make disposable cups, bowls, plates, trays, egg cartons, clamshell containers, ice chests, shipping boxes and packing materials.

~~(i)~~ "Plastic Foam Products" means Disposable Plastic Foam ice chests, cups, bowls, plates, clamshells, shipping boxes containers, egg cartons, packaging peanuts, packing blocks or other packaging materials that are not wholly encapsulated or encased by a more durable material.



## ATTACHMENT A

Additional Plastic Foam Products may be added by administrative regulation promulgated by the Director of Public Works.

(j) "Prepared Food" means any food or beverage prepared for consumption using any cooking, packaging, or food preparation technique, including but not limited to cooking, chopping, slicing, mixing, freezing, squeezing, or brewing, and which requires no further preparation to be consumed. Prepared food includes uncooked fruits or vegetables, "take-out" food, or food prepared to be consumed off the Food Service Establishment premises. Prepared Food does not include any uncooked meat, fish or poultry.

(k) "Recyclable" means items deemed acceptable within the city's recycling collection program as determined by the Director of Public Works and identified on the city's website.

(l) "Retail Service Establishment" shall have the same meaning as Retail Service as defined in Title 18 of this Code.

(m) "Reusable Foodware" means a Foodware Item made of durable materials and designed to be used repeatedly with a useful life greater than one year.

(n) "Third-party food delivery platform" means a business engaged in the service of online food ordering and delivery from a food service establishment to a consumer.

Section 3. Section 5.30.025 (Limitation on the use of Disposable Foodware Items and other Disposable products) of Chapter 5.30 (Disposable Foodware Items and Other Disposable Products of Title 5 (Health and Sanitation) of the Palo Alto Municipal Code is amended as follows (new text underlined and deleted text struck through):

5.30.025 Limitation on the use of Disposable Foodware Items and other Disposable products.

Effective January 1, 2020:

(a) Food Service Establishments are prohibited from providing the following Disposable Foodware Items:

1. Plastic straws
2. Plastic utensils (e.g., forks, knives, spoons, sporks, chopsticks)
3. Plastic drink stirrers, drink plugs, and other drink accoutrements such as novelty cocktail accessories
4. Plastic food picks and toothpicks

(b) Food Service Establishments, City Facilities, and vendors at City-sponsored events shall provide the following Foodware Items only if they are Reusable or Compostable:

1. Straws
2. Utensils (e.g., forks, knives, spoons, sporks, chopsticks)
3. Drink stirrers, drink plugs, and other drink accoutrements such as novelty cocktail accessories
4. Food picks and toothpicks

(c) Food Service Establishments shall provide permitted Disposable Foodware Items, other than Food Service Containers, only upon ~~customer~~consumer request or at a self-serve station.



## ATTACHMENT A

(d) Food Service Establishments are prohibited from providing consumers with wrapped bundled foodware and condiments.

1. Food Service Establishments may provide unwrapped disposable foodware accessories by a single serve dispenser to a consumer using refillable self-service dispensers that dispense one item at a time to allow for disposable foodware accessories to be obtained.

2. Food Service Establishments may provide condiments to a consumer using refillable self-service dispensers to allow for condiments to be obtained.

(e) Third-party food delivery platforms are prohibited from providing foodware and condiments unless the consumer selects or requests the items.

1. Consumers must have the option to opt-in to request disposable foodware and condiments including the number of each unit identified on the third-party food delivery platform application, food service establishment web site, or any vendor website or app when picking-up food from a food service establishment and delivering food to a consumer.

2. If a consumer does not select any disposable foodware accessories or condiments, no disposable foodware accessory or condiment shall be provided by the food service establishment or third-party vendor for delivery with ready-to-eat food.

Section 4. Section 5.30.030 (Exemptions) of Chapter 5.30 (Disposable Foodware Items and Other Disposable Products of Title 5 (Health and Sanitation) of the Palo Alto Municipal Code is amended as follows (new text underlined and deleted text struck through):

#### 5.30.030 Exemptions.

(a) The following exemptions shall apply:

(i) Foods prepared or packaged outside the City of Palo Alto are exempt from the provisions of this Chapter. Purveyors of food prepared or packaged outside the City of Palo Alto are encouraged to follow the provisions of this Chapter.

(ii) The Director of Public Works may exempt a Food Service Establishment, Retail Service Establishment or City Facility/vendor from the requirements of this Chapter for a period of up to one year, if the applicant for such exemption can demonstrate that the conditions of this Chapter would cause an undue hardship. An "undue hardship" includes, but is not limited to situations unique to the applicant where there are no reasonable alternatives to Plastic Foam Products or non-recyclable plastic Disposable Food Service Containers and compliance with this Chapter would cause significant economic hardship to that applicant, or cause them to be deprived of a legally protected right.

(iii) A Food Service Establishment, Retail Service Establishment or City facility/vendor seeking an exemption application shall include all information necessary for the City to make its decision, including but not limited to documentation showing the factual support for the claimed exemption. The Director may require the applicant to provide additional information to permit the Director to determine facts regarding the exemption application. This exemption does not apply to the requirements found in California Public Resource Code Chapter 5.2 Single-Use Foodware Accessories and Condiments.

(iv) Emergency Supplies and Service Procurement. City facilities, Food Service Establishments, Retail Service Establishments, City contractors and vendors doing business with



## ATTACHMENT A

the City shall be exempt from the provisions of this chapter, in a situation deemed by the City Manager to be an emergency for the immediate preservation of the public peace, health or safety.

(v) Nothing in this Chapter shall restrict, or be construed to restrict, the availability of single-use plastic straws to individuals who may require and request the use of single-use plastic straws due to disability or other medical or physical conditions or circumstances.

It shall not be a violation of this Chapter for any Food Service Establishment, City Facility or City-sponsored event vendor to provide single-use plastic straws to such individuals who request plastic straws.

(vi) The following facilities are not required to comply with the provisions in this chapter.

(1) Health Care Facilities (patient rooms only)

(2) Residential Care Facilities

Section 5. If any section, subsection, clause or phrase of this Ordinance is for any reason held to be invalid, such decision shall not affect the validity of the remaining portion or sections of the Ordinance. The Council hereby declares that it should have adopted the Ordinance and each section, subsection, sentence, clause or phrase thereof irrespective of the fact that any one or more sections, subsections, sentences, clauses or phrases be declared invalid.

Section 6. This ordinance is exempt from the requirements of the California Environmental Quality Act (CEQA) because under Section 15378(b)(1) of CEQA Guidelines, it is a general policy making activity and therefore not a "Project" within the meaning of CEQA.

Section 7. This ordinance shall be effective on the thirty-first day after the date of its adoption.





## City of Palo Alto City Council Staff Report

(ID # 13438)

**Meeting Date: 5/2/2022**

**Report Type: Action Items**

**Title: Adoption of a Resolution Authorizing the Issuance and Sale of One or More Series of General Obligation Refunding (Refinancing) Bonds (Election of 2008) in an Aggregate Principal Amount Not to Exceed \$58 million, and Execution of a Paying Agency Agreement, and Certain Other Related Documents and Authorizing Official Actions Related Thereto**

**From: City Manager**

**Lead Department: Administrative Services**

### **Recommendation**

Staff recommends that the City Council approve a resolution (Attachment A):

1. Authorizing the refinancing of the outstanding Series 2010A and Series 2013A General Obligation (Library) Bonds through the issuance of tax-exempt and federally taxable General Obligation Bonds (Bonds) in the not to exceed amount of \$58,000,000.
2. Approving the Paying Agency Agreement, Official Notice of Sale, Preliminary Official Statement, Irrevocable Refunding Instructions related to the Series 2010A Bonds, Escrow Deposit and Trust Agreement related to the Series 2013A Bonds Between City of Palo Alto and U.S. Bank Trust Company National Association; and authorize related documents and actions.

### **Executive Summary**

The refinancing of the Series 2010A and Series 2013A General Obligation (GO) Bonds as Series 2022A tax-exempt and Series 2022B taxable GO bonds results in net present value (NPV) savings conservatively estimated at \$5.5 million, equating to 10.1 percent of the refunded bonds' principal amount. These bonds were issued based on the voter approved Measure N in November 2008. Proceeds from this financing were used for capital investments to the City's library system at three locations. Annually, an assessment is levied on property owners via the property tax bill to service the annual debt associated with these investments. If this refinancing is approved, savings will be realized by property owners through lower annual assessments.



## Background

On November 4, 2008, City voters passed Measure N, which gave the City the authority to issue a maximum amount of \$76 million of general obligation bonds (the “Bonds”) for capital improvements to the Mitchell Park, Downtown, and Rinconada (formerly Main) libraries and to the Mitchell Park community center.

On May 10, 2010 ([CMR: 242:10](#)) and May 6, 2013 ([CMR: 3753](#)) Council authorized the issuance of two series of Bonds. The Series 2010A Bonds (\$55.3 million) were issued on June 30, 2010 with a True Interest Cost (TIC) of 4.21 percent and the Series 2013A Bonds (\$20.7 million) were issued on June 26, 2013 with a TIC of 3.85 percent.

At the completion of the library and community center capital projects, \$6.1 million in bond funds remained with \$0.6 million being set aside to address the Mitchell Park Library roof and gutter repair. In June 2016 ([CMR: 6993](#)), the \$6.1 million funds were used to defease/payoff some of the outstanding bonds early which resulted in net present value (interest) savings of \$1.6 million.

Debt service payments on these Bonds are paid through ad valorem taxes on all taxable land and improvements (both secured and unsecured assessment roll) within the City. Annually, staff seeks Council approval (via a resolution) which authorizes the placement of an ad valorem property tax levy. The most recent (for fiscal year 2022) tax levy rates were \$0.00926 per \$100 or \$9.26 per \$100,000 in AV for the secured tax roll; and \$0.00956 per \$100 or \$9.56 per \$100,000 in AV for the unsecured tax roll. In comparison, prior year’s secured and unsecured tax levy was \$9.56 and \$10.62 respectively, per \$100,000 of AV. With the assessment for FY 2022, a house with an assessed value of \$1.0 million, for example, would see an annual assessment of \$92.60 on their property tax bill. In comparison, in FY 2021, a \$1.0 million home had an assessment of \$95.60.

## Discussion

The principal (aka par) amount of outstanding General Obligation (GO) Bonds recommended to be refinanced totals \$54.2 million

(Series 2010A is \$40.6 million and Series 2013A is \$13.6 million). The City’s Financial Advisor, PFM

	2010A Bonds	2013A Bonds	TOTAL
<i>Original Bonds Issuance</i>	\$55.3M	\$20.7M	\$76.0M
<i>Outstanding Bonds</i>	\$40.6M	\$13.6M	\$54.2M

Financial Advisors LLC (PFM), estimates that annual debt service costs will likely be reduced by \$418,000 annually over the next eighteen plus years as a result of this refinancing. Since Palo Alto property owners are supporting the debt service payments through ad valorem taxes, this savings will be realized by property owners in the City through reduced property tax assessments. At this time, total cash savings are estimated at \$7.5 million (\$7.1 million is attributable to the Series 2010A Bonds and \$0.4 million is attributable to the Series 2013A Bonds) and the net present value (NPV) savings are estimated at \$5.5 million (attributable to the series 2010A), equating to 10.1 percent of the refunded bonds’ principal amount. The NPV savings of 10.1 percent exceeds the Debt Service Policy threshold which states NPV “savings of



at least 3 percent is a standard guideline for initiating a refunding”, therefore staff recommends moving forward at this time. The City expects the bond sale to occur on or around May 17, 2022. It is important to note that potential savings cited in this report are estimates and that final savings are dependent on prevailing interest rates and underwriter bids on the day of the bond sale.

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 2010A Bonds, but it has not passed for the Series 2013A Bonds. As a result, staff is recommending that the Series 2010A bonds be refinanced with tax-exempt Series 2022A bonds and the Series 2013A bonds be refinanced with Series 2022B federally taxable bonds. Though the federally taxable refinancing of the Series 2013A Bonds generates significantly less cash savings than the larger tax-exempt refinancing of the Series 2010A Bonds, staff recommends that the City nevertheless refinance the Series 2013A Bonds because of the conservatively estimated cash savings. The City is seeking to have its current high rating (triple A) affirmed and if there’s aggressive bidding, it’s possible the actual underwriter’s bids could result in both positive cash and NPV savings. Undertaking the two refinancing at the same time offers economies of scale as the incremental cost of issuance is not significant for including the 2013A bonds in this refinancing. As a contingency, should the actual interest rates for the federally taxable refinancing bonds be at or higher than currently conservatively expected resulting in no NPV savings, staff will exercise its option to reject the bids for the refinancing of the Series 2013A Bonds and only proceed with the refinancing of the Series 2010A Bonds.

Staff’s requesting authorization for the issuance and sale of one or more series of GO Bonds in an aggregate principal amount not to exceed \$58 million; this flexibility will allow staff to adjust the structure of the bonds to maximize interest from potential underwriters with the goal of getting the lowest possible borrowing interest rate.

#### *Refinancing Administration*

The refinancing will include the City contributing the pending \$2.7 million accrued debt service payment, which was scheduled for August 1, 2022. The funds for this payment were included in the fiscal year (FY) 2022 GO Bond property tax assessment levy. In addition, \$0.35 million in savings from funds set aside to address the Mitchell Park Library roof and gutter repair will be applied toward this refinancing.

Staff expects the debt issuance to be competitively solicited; the underwriter’s discount fee is estimated at \$500,750, which equates to 1% of the estimated principal amount of the refinancing bonds. Other issuance costs of \$223,880 are primarily made up of the financial advisor (PFM), bond counsel (Jones Hall), disclosure counsel (Quint & Thimmig, LLP), and the paying agency (U.S. Bank) (Attachment B). Precise costs for the underwriter will not be known until the day of sale.



The interest rates on the principal amounts of the Series 2022A (Tax-Exempt) and 2022B (Federally Taxable) bonds will be determined on the day of the sale and will reflect prevailing market conditions at that time. When the interest rates are established, annual debt service payments will be calculated and used to determine the FY 2023 property tax assessment. This is typically placed, annually, on the first meeting after the Council's return from Summer Break in early August. As noted above in the background section, the current (FY 2022) levy for the GO Bonds is \$9.26 per \$100,000 in Assessed Value (AV) for the secured<sup>1</sup> and utility tax roll and \$9.56 per \$100,000 in AV for the unsecured tax roll<sup>2</sup>. A June refinancing bond closing allows sufficient time to notify the County of the levy for next year based on the lower debt service requirement.

#### *Rating Agency Presentation*

To minimize interest expense and to promote the bond issuance staff will deliver a ratings presentation to Standard and Poor's (S&P) on April 28, 2022. The City Manager and Administrative Services departments, as well as the City's financial advisor and bond counsel, will participate in the presentation. Information on City demographics, property values, businesses, educational institutions, and financial condition will be provided to the rating agency.

This information is factored into the rating agency's credit rating, which investors use in determining whether or not to buy the City's bonds. A higher credit rating results in lower interest costs and vice versa. The current underlying issuer credit rating for the City's GO Bonds are triple A from Standard and Poor's and Moody's, the highest possible. Once S&P's rating is received, staff will relay the results to Council and the public.

#### *Refinancing Mechanics*

Council approval is required to sell up to \$58,000,000 in tax-exempt and federally taxable General Obligation (Refunding) Bonds through a competitive sale process targeted on or around May 17, 2022. The settlement or closing of the bond sale is expected to occur on or around June 16, 2022. The City's Financial Advisor (PFM) will assist the City in receiving and evaluating bids from underwriters for the bonds and in selecting the optimal bid. Underwriters are investment-banking firms, and the underwriter selected will resell the bonds to investors, typically institutional investors like mutual funds and high net worth individuals. The underwriter with a bid resulting in the lowest TIC to the City will be selected on the bid day.

The timeline for selling bonds is provided below assuming approval of this item. If not approved, timelines and financial projections would need to be revised and reconsidered.

If approved, staff would issue a maximum amount of \$58,000,000 in GO Bonds to refinance the tax-exempt Series 2010A and Series 2013A Bonds issued under the authority of voter approved

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<sup>1</sup> Secured property are Assessed Value (AV) on real property such as land and structures.

<sup>2</sup> Unsecured are AV of personal property such as business equipment, boats, aircraft, and possessory interests.



Measure N. To issue Bonds, the Council will need to adopt the attached resolution (Attachment A) which:

1. Authorizes the issuance and sale of up to \$58,000,000 in (principal) Bonds ("Series 2022A Tax-Exempt and 2022B Federally Taxable Bonds").
2. Approves the required legal documents (Exhibits 1, through 5) which are discussed below.

Approving the resolution would confer formal acceptance of the following documents:

a. Paying Agency Agreement (Exhibit 1)

This agreement outlines the responsibilities of the City and U.S. Bank in all financial transactions related to receipt of bond proceeds, disbursement of funds, payment of debt service, and payments to bond holders. This will be executed when the bond closing is done which is expected to occur on June 16, 2022.

b. Official Notices of Sale (Exhibit 2a and 2b)

Exhibit 2a describes the Series 2022A (Tax-Exempt) and Exhibit 2b for 2022B (Federally Taxable) Bonds to the investment community (potential bidders), for the purpose of seeking bids to be received via an electronic platform, on or around May 17, 2022.

c. Preliminary Official Statement (POS) (Exhibit 3)

The POS containing and discussing information about the City, its economic and property tax base, the Series 2022A (Tax-Exempt) and 2022B (Federally Taxable) Bonds, and other information material to the offering and sale of the Bonds, which will be approved by the Council in near "final" form (i.e., it is substantially complete, except for the interest rates and amount of final numbers which will result from the sale of the Series 2022A (Tax-Exempt) and 2022B (Federally Taxable) Bonds).

The POS is the offering document for municipal securities. After the COPs have been sold to the underwriter, the City will prepare a final Official Statement, which should be identical to the POS except that it will include the final pricing information about the Bonds, including principal amount, interest rate, and prepayment terms.

The distribution of the POS by the City is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the POS to include all facts that would be material to an investor in the Bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the Bonds. If the Council concludes that the POS includes all facts that would be material to an investor in the Bonds, it must adopt a resolution that authorizes staff



to execute a certificate to the effect that the Preliminary Official Statement has been “deemed final.”

The Securities and Exchange Commission (the “SEC”), the agency with regulatory authority over the City’s compliance with the federal securities laws, has issued guidance as to the duties of the Council with respect to its approval of the POS. In its “Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors” (Release No. 36761 / January 24, 1996) (the “Release”), the SEC stated that, if a member of the Council has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the Bonds, whether relating to their repayment, tax-exempt status (if applicable), undisclosed conflicts of interest with interested parties, or otherwise, they should endeavor to discover whether such facts are adequately disclosed in the POS. In the Release, the SEC stated that the steps that a member of the Council could take include becoming familiar with the POS and questioning staff and consultants about the disclosure of such facts.

Appendix F to the POS is the Continuing Disclosure Certificate, under which the City will agree to provide certain financial and operating data of the type included in the POS to owners of the Bonds on an annual basis, and information about certain enumerated events when they occur. This information is already being provided on the current GO Bonds so staff will continue doing this for the refinanced Bonds.

d. Irrevocable Refunding Instructions Agreement (Exhibit 4)

This document by the City of Palo Alto to U.S. Bank Trust Company National Association (aka Paying Agency) for the refunding of the Series 2010A Bonds. It directs the Paying Agency for (1) Establishment of Escrow Fund, (2) Deposit and Investment of Amounts in Escrow Fund, (3) Application of Amounts in Escrow Fund and related tasks.

e. Escrow Deposit and Trust Agreement (Exhibit 5)

This document between City of Palo Alto and U.S. Bank Trust Company National Association for the refunding of the Series 2013A Bonds which is an irrevocable escrow securing the payment and redemption of the refunded bonds.

**Timeline (2022)**

April 28, 2022	Standard and Poor’s (S&P) Rating Presentation
May 5, 2022	Receive S&P’s Rating
May 6, 2022	Post Preliminary Official Statement
Week of May 9th	Pre-marketing Calls to Bidders
May 17, 2022	Competitive Bond Sale
Week of May 23rd	Final Official Statement Printed and Posted
June 16, 2022	Bond Sale Closing



### Resource Impact

Refinancing of the tax-exempt Series 2010A and 2013A General Obligation Bonds is estimated to reduce the city's annual debt service payment by \$418,000 annually over the next eighteen plus years. Bond Issuance expenses that include bond and disclosure counsel, financial advisor, rating agency fees, underwriter's discount fee, etc. estimated at \$724,630 (Cost of Issuance is \$223,880 and Underwriter's Discount Fee is \$500,750) will be paid through the sale of bonds. Precise debt service payments will not be known until competitive bids are received from the underwriting firms. At this time, the current interest rate environment is favorable for issuing or refinancing debt.

### Policy Implications

While there is no Council policy on the methods of refinancing debt, the traditional approach has been to sell bonds with competitive bids in the open bond market ([Debt Policy, Section III, item C](#)).

### Environmental Review

The financing proposed for approval is not a project under the California Environmental Quality Act; therefore, an environmental review is not required.

### Attachments:

- **Attachment12.a:** Attachment A: Resolution Authorizing the Issuance and Sale of One or More Series of General Obligation Refunding Bonds in Aggregate Principal Amount NTE \$58,000,000
- Attachment12.b: Attachment B Bond Issuance Expense Estimates
- Attachment12.c: Exhibit 1 Paying Agency Agreement
- Attachment12.d: Exhibit 2a 2022A (Tax-Exempt) Official Notice of Sale
- Attachment12.e: Exhibit 2b 2022B (Federally Taxable) Official Notice of Sale
- Attachment12.f: Exhibit 3 Preliminary Official Statement
- Attachment12.g: Exhibit 4 Irrevocable Refunding Instructions (2010A Bonds)
- Attachment12.h: Exhibit 5 Escrow Deposit and Trust Agreement (2013A Bonds)



Resolution No. \_\_\_\_\_

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALO ALTO  
AUTHORIZING THE ISSUANCE AND SALE OF ONE OR MORE  
SERIES OF GENERAL OBLIGATION REFUNDING BONDS (ELECTION  
OF 2008) IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED  
\$58,000,000, AND AUTHORIZING ACTIONS RELATED THERETO

R E C I T A L S

A. The City of Palo Alto (the "City") is empowered under Chapter 4 (commencing with Section 43600) of Division 4 of Title 4 of the Government Code of the State of California to its issue general obligation bonds which are authorized by two-thirds of the electors voting on the proposition.

B. More than two-thirds of the electors voting at a special municipal election held on November 4, 2008, voted for a proposition, designated Measure N, authorizing the issuance by the City of general obligation bonds in the aggregate principal amount of \$76,000,000 for the purpose of financing the costs of constructing a new energy efficient, environmentally friendly Mitchell Park Library and Community Center, renovating and expanding the Main Library, and renovating the Downtown Library, including enhancements at all three facilities for seismic safety and disabled access, expanded space for library collections, meeting and study areas, and new air conditioning, ventilation and lighting systems.

C. Pursuant to such authorization the City previously issued general obligation bonds in two series:

(a) \$55,305,000 City of Palo Alto General Obligation Bonds, Election of 2008, Series 2010A (the "2010 Bonds") and

(b) \$30,695,000 City of Palo Alto General Obligation Bonds, Election of 2008, Series 2013A ("the 2013 Bonds"; together with the 2010 Bonds, the "Prior Bonds").

D. The City Council has determined at this time to issue and sell one or more series of General Obligation Refunding Bonds (Election of 2008) in the aggregate principal amount of not to exceed \$58,000,000 (the "Bonds") for the purpose of refunding all of the outstanding Prior Bonds and thereby realizing financial savings to the property tax payers of the City.

E. The 2010 Bonds are subject to redemption on any date on and after August 1, 2020, without premium.

F. As set forth in the 2013 Bonds and the Official Statement for the 2013 Bonds, the 2013 Bonds maturing on and after August 1, 2024 are subject to optional redemption on August 1, 2023, without premium.

G. In order to comply with federal tax law in effect as of the date hereof, the City expects to issue one series of tax-exempt bonds (the "Tax-Exempt Bonds") to



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refund the 2010 Bonds and one series of federally taxable bonds to refund the 2013 Bonds (the “Federally Taxable Bonds”).

H. The City Council is authorized to provide for the issuance and sale of the Bonds under the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53550 of said Code (the “Refunding Bond Law”).

I. As required by Government Code Section 5852.1 enacted January 1, 2018 by Senate Bill 450, attached hereto as Appendix B is the information relating to the Bonds that has been obtained by the City Council and is hereby disclosed and made public.

HJ On April 11, 2017, this City Council previously approved a Debt Policy which complies with Government Code Section 8855, and the delivery of the Bonds will be in compliance with said policy, or any non-compliance is hereby waived.

NOW, THEREFORE, THE COUNCIL OF THE CITY OF PALO ALTO does resolve AS FOLLOWS:

## ARTICLE I

### DEFINITIONS; AUTHORITY

SECTION 1.01. *Definitions.* The terms defined in this Section 1.01, as used and capitalized herein, shall, for all purposes of this Resolution, have the meanings given them below, unless the context clearly requires some other meaning.

“Bond Counsel” means (a) Jones Hall, A Professional Law Corporation, and (b) any other attorney or firm of attorneys nationally recognized for expertise in rendering opinions as to the legality and tax exempt status of securities issued by public entities.

“Bond Purchase Agreement” means the Bond Purchase Agreement for the Bonds, which is approved under Section 3.01(b).

“Bond Sale Documentation” means (a) if the Bonds are sold by competitive bidding in accordance with Section 3.01(a), the Official Notice of Sale and the winning bid of the Original Purchaser, or (b) if the Bonds are sold by negotiation in accordance with Section 3.01(b), the Bond Purchase Agreement between the City and the Original Purchaser.

“Bonds” means the City of Palo Alto General Obligation Refunding Bonds (Election of 2008) authorized to be issued in one or more series under this Resolution in the aggregate principal amount of not to exceed \$58,000,000, including the Tax-Exempt Bonds and the Federally Taxable Bonds.

“City” means the City of Palo Alto, a charter city and municipal corporation organized under the Constitution and laws of the State of California, and any successor thereto.



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“City Representative” means the City Manager, the Assistant City Manager, the Director of Administrative Services or the Chief Financial Officer, or any other officer of the City authorized by resolution of the City Council of the City to act on behalf of the City with respect to this Resolution and the Bonds.

“Closing Date” means the date upon which there is a physical delivery of the Bonds in exchange for the amount representing the purchase price of the Bonds by the Original Purchaser.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City and related to the authorization, issuance, sale and delivery of the Bonds and the refunding of the Prior Bonds, including but not limited to the costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Paying Agent and its counsel, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds and the refunding of the Prior Bonds.

“County” means the County of Santa Clara, a political subdivision of the State of California, duly organized and existing under the Constitution and laws of the State of California.

“Debt Service Fund” means the account established and held by the City under Section 4.02.

“Depository” means (a) initially, DTC, and (b) any other Securities Depository acting as Depository under Section 2.09.

“Depository System Participant” means any participant in the Depository’s book-entry system.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Escrow Agreement (2013 Bonds)” means the Escrow Deposit and Trust Agreement (2013 Bonds), dated as of the Closing Date, by and between the City and the Prior Bonds Paying Agent, relating to the defeasance, payment and redemption of the outstanding 2013 Bonds.

“Federal Securities” means United States Treasury notes, bonds, bills or certificates of indebtedness, or any other obligations the timely payment of which is directly or indirectly guaranteed by the faith and credit of the United States of America.

“Federally Taxable Bonds” has the meaning given that term in the Recitals.

“Interest Payment Date” means February 1, 2023, and the first day of each succeeding March and September.



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“Irrevocable Refunding Instructions (2010 Bonds)” means the Irrevocable Refunding Instructions (2010 Bonds), dated as of the Closing Date, by and between the City and the Prior Bonds Paying Agent, relating to the defeasance, payment and redemption of the outstanding 2010 Bonds.

“Official Notice of Sale” means the Official Notice of Sale for the Bonds, which is approved under Section 3.01(a).

“Original Purchaser” means the original purchaser of the Bonds at the public or negotiated sale thereof.

“Outstanding,” when used as of any particular time with reference to Bonds, means all Bonds except: (a) Bonds theretofore canceled by the Paying Agent or surrendered to the Paying Agent for cancellation; (b) Bonds paid or deemed to have been paid within the meaning of Section 9.02; and (c) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the City under this Resolution.

“Owner”, whenever used herein with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

“Paying Agent” means the Paying Agent appointed by the City and acting as paying agent, registrar and authenticating agent for the Bonds, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in Section 6.01.

“Principal Office” means the office or offices of the Paying Agent for the payment of the Bonds and the administration of its duties hereunder, as such office or offices shall be identified in a written notice filed with the City by the Paying Agent.

“Prior Bonds Paying Agent” means U.S. Bank Trust Company National Association, in its capacity as successor paying agent for the Prior Bonds.

“Prior Bonds” has the meaning given that term in the Recitals.

“Record Date” means the 15<sup>th</sup> day of the month preceding an Interest Payment Date, whether or not such day is a business day.

“Refunding Bond Law” means Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, as amended from time to time.

“Registration Books” means the records maintained by the Paying Agent for the registration of ownership and registration of transfer of the Bonds under Section 2.08.

“Resolution” means this Resolution, as originally adopted by the City Council on May 2, 2022, and including all amendments hereto and supplements hereof which are duly adopted by the City Council from time to time in accordance herewith.



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“Securities Depositories” means DTC; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the City may designate.

“Supplemental Resolution” means any resolution supplemental to or amendatory of this Resolution, adopted by the City in accordance with Article VIII.

“Tax Code” means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the Closing Date, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under said Code.

“Tax-Exempt Bonds” has the meaning given that term in the Recitals.

“Written Request of the City” means an instrument in writing signed by a City Representative or by any other officer of the City duly authorized to act on behalf of the City under a written certificate of a City Representative.

#### SECTION 1.02. *Interpretation.*

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Resolution; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Resolution as a whole and not to any particular Article, Section or subdivision hereof.

SECTION 1.03. *Authority for this Resolution; Findings.* This Resolution is entered into under the provisions of the Refunding Bond Law. It is hereby certified that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of the Bonds do exist, have happened or have been performed in due and regular time and manner as required by the laws of the State of California, and that the amount of the Bonds, together with all other indebtedness of the City, does not exceed any limit prescribed by any laws of the State of California. This City Council hereby finds that the Recitals are true and correct, and ratifies the provisions of the 2013 Bonds and the 2013 Official Statement as to the fact that the 2013 Bonds maturing on and after August 1, 2024 are subject to redemption on August 1, 2023, having concluded that any contradictory provisions in the 2013 Paying Agent Agreement are in error.



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## ARTICLE II

### THE BONDS

SECTION 2.01. *Authorization.* The City hereby determines that the prudent management of the fiscal affairs of the City requires that it issue refunding bonds to refund the Prior Bonds. One or more series of Bonds in the aggregate original principal amount of not to exceed \$58,000,000 are hereby authorized by the City to be issued by the City under and subject to the terms of the Refunding Bond Law and this Resolution, for the purpose of providing funds to refund and defease the outstanding Prior Bonds and to pay the Costs of Issuance incurred in connection therewith. This Resolution constitutes a continuing agreement between the City and the Owners of all of the Bonds issued or to be issued hereunder and then Outstanding to secure the full and final payment of principal of and interest and premium, if any, on all Bonds which may be Outstanding hereunder, subject to the covenants, agreements, provisions and conditions herein contained. The Bonds are designated the "City of Palo Alto General Obligation Refunding Bonds (Election of 2008)."

As provided in Section 53552 of the Refunding Bond Law, the Bonds shall not be issued unless the total net interest cost to maturity on the Bonds plus the principal amount of the Bonds is less than the total net interest cost to maturity on the Prior Bonds to be refunded plus the principal amount of the Prior Bonds to be refunded. Before issuing the Bonds, the City shall receive confirmation from the City's municipal advisor that the requirements of Section 53552 of the Refunding Bond Law have been satisfied.

SECTION 2.02. *Terms of Bonds.*

(a) Principal Amount of Bonds. The Bonds are authorized to be issued in one or more series in the aggregate principal amount of not to exceed \$58,000,000.

(b) Form; Numbering. The Bonds will be issued in fully registered form, without coupons, in authorized denominations of \$5,000 each or any integral multiple thereof. The Bonds will be lettered and numbered as the Paying Agent prescribes.

(c) Date of Bonds. The Bonds will be dated as of the Closing Date.

(d) CUSIP Identification Numbers. "CUSIP" identification numbers will be imprinted on the Bonds, but such numbers do not constitute a part of the contract evidenced by the Bonds and no error or omission with respect thereto will constitute cause for refusal of the Original Purchaser to accept delivery of and pay for the Bonds. In addition, failure on the part of the City to use such CUSIP numbers in any notice to Owners of the Bonds will not constitute an event of default or any violation of the City's contract with such Owners and will not impair the effectiveness of any such notice.

(e) Determination of Maturities and Interest Rates. The Bonds shall mature (or, alternatively, be subject to mandatory sinking fund redemption as hereinafter provided) on August 1 in each year in which principal on the Bonds is payable. The final schedule of Bond maturities shall be determined upon the sale of the Bonds as set forth in the Notice Inviting Bids.



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Each Bond will bear interest at the respective rates to be determined upon the sale of the Bonds in accordance with Article III. Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

- a Bond is authenticated as of an Interest Payment Date, in which event it will bear interest from such date,
- a Bond is authenticated prior to an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date,
- a Bond is authenticated on or before the first Record Date, in which event it shall bear interest from the Closing Date, or
- at the time of authentication of a Bond, interest is in default thereon, in which event it will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

(f) Manner of Payment. Interest on the Bonds (including the final interest payment upon maturity) is payable by check of the Paying Agent mailed to the Owner thereof at such Owner's address as it appears on the Registration Books at the close of business on the preceding Record Date; except that at the written request of the Owner of at least \$1,000,000 aggregate principal amount of the Bonds, which written request is on file with the Paying Agent as of any Record Date, interest on such Bonds shall be paid by wire transfer on the succeeding Interest Payment Date to an account in the United States of America as shall be specified in such written request. Principal of and premium (if any) on the Bonds is payable in lawful money of the United States of America upon presentation and surrender at the Principal Office of the Paying Agent.

#### SECTION 2.03. *Redemption.*

(a) Optional Redemption. The Bonds may be made subject to redemption prior to maturity, at the option of the City, in whole or in part among maturities on such basis as designated by the City and by lot within a maturity, from any available source of funds, on the dates and upon payment of a redemption price (equal to the principal amount of Bonds to be redeemed together with a redemption premium, if any), all as determined upon the sale of the Bonds and as set forth in the Notice Inviting Bids.

(b) Mandatory Sinking Fund Redemption. If and to the extent specified in the bid of the Original Purchaser, any maturity of the Bonds will be designated as "Term Bonds" which are subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective principal amounts set forth in such bid, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, in each case without premium, together with interest accrued thereon to the redemption date. If some but not all of the Term Bonds have been redeemed under the preceding subsection (a) of this Section, the aggregate principal amount of Term Bonds to be redeemed in each year under this subsection (b) shall be reduced on a pro rata basis in integral multiples of \$5,000, as designated in written notice filed by the City with the Paying Agent.



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(c) Selection of Bonds for Redemption. Whenever less than all of the Outstanding Bonds of any one maturity are designated for redemption, the Paying Agent shall select the Outstanding Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. For purposes of such selection, each Bond shall be deemed to consist of individual Bonds of \$5,000 denominations which may be separately redeemed.

(d) Redemption Procedure. The Paying Agent shall cause notice of any redemption to be mailed, first class mail, postage prepaid, at least 20 days but not more than 60 days prior to the date fixed for redemption, (i) to the Securities Depositories and the Municipal Securities Rulemaking Board's EMMA website, and (ii) to the respective Owners of any Bonds designated for redemption, at their addresses appearing on the Registration Books. Such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice shall not affect the validity of the proceedings for the redemption of Bonds.

Such notice shall state the redemption date and the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption, shall designate the serial numbers of the Bonds to be redeemed by giving the individual number of each Bond or by stating that all Bonds between two stated numbers, both inclusive, or by stating that all of the Bonds of one or more maturities have been called for redemption, and shall require that such Bonds be then surrendered at the Principal Office of the Paying Agent for redemption at the said redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

The City is entitled to send a redemption notice that declares that the redemption is conditional upon the availability of moneys to accomplish the redemption, and the City may rescind any notice of optional redemption of the Bonds by written notice to the Paying Agent on or prior to the date fixed for redemption, and the Paying Agent shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under this section. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption. The City and the Paying Agent shall have no liability to the Owners or any other party related to or arising from such rescission.

Upon surrender of Bonds redeemed in part only, the City shall execute and the Paying Agent shall authenticate and deliver to the Owner, at the expense of the City, a new Bond or Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

From and after the date fixed for redemption, if notice of such redemption has been duly given and funds available for the payment of the principal of and interest (and premium, if any) on the Bonds so called for redemption have been duly provided, such Bonds so called will cease to be entitled to any benefit under this Resolution other than the right to receive payment of the redemption price, and no interest will accrue thereon on or after the redemption date specified in such notice. The Paying Agent shall cancel all Bonds redeemed under this Section 2.03, and shall submit to the City a certificate of cancellation.

SECTION 2.04. *Form of Bonds.* The form of the Bonds, including the form of the Paying Agent's Certificate of Authentication and the form of Assignment to appear



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thereon, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Resolution, are set forth in Appendix A attached hereto.

SECTION 2.05. *Execution of Bonds.* The Bonds shall be executed on behalf of the City by the facsimile signatures of its Mayor and City Clerk who are in office on the date of adoption of this Resolution or at any time thereafter, and the seal of the City shall be impressed, imprinted or reproduced by facsimile thereon. If any officer whose signature appears on any Bond ceases to be such officer before delivery of the Bonds to the Original Purchaser, such signature will nevertheless be as effective as if the officer had remained in office until the delivery of the Bonds to the Original Purchaser. Any Bond may be signed and attested on behalf of the City by such persons as at the actual date of the execution of such Bond are the proper officers of the City although at the nominal date of such Bond any such person does not serve as such officer of the City.

Only those Bonds bearing a Certificate of Authentication in the form set forth in Appendix A attached hereto, executed and dated by the Paying Agent, will be valid or obligatory for any purpose or entitled to the benefits of this Resolution, and such Certificate of Authentication of the Paying Agent constitutes conclusive evidence that the Bonds so registered have been duly authenticated, registered and delivered hereunder and are entitled to the benefits of this Resolution.

SECTION 2.06. *Transfer of Bonds.* Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Office at the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed. The City may charge a reasonable sum for each new Bond issued upon any transfer.

Whenever any Bond or Bonds is surrendered for transfer, the City shall execute and the Paying Agent shall authenticate and deliver a new Bond or Bonds, for like aggregate principal amount.

SECTION 2.07. *Exchange of Bonds.* Bonds may be exchanged at the Principal Office of the Paying Agent for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. The City may charge a reasonable sum for each new Bond issued upon any exchange.

SECTION 2.08. *Registration Books.* The Paying Agent shall keep or cause to be kept sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection by the City upon reasonable notice; and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as herein before provided.

SECTION 2.09. *Book-Entry System.* Except as provided below, DTC will be the Owner of all of the Bonds, and the Bonds will be registered in the name of Cede & Co. as nominee for DTC. The Bonds shall be initially executed and delivered in the form of a single fully registered Bond for each maturity date of the Bonds in the full aggregate principal amount of the Bonds maturing on such date. The Paying Agent and the City may treat DTC (or its nominee) as the sole and exclusive owner of the Bonds registered in its name for all purposes of this Resolution, and neither the Paying Agent nor the City



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shall be affected by any notice to the contrary. The Paying Agent and the City shall not have any responsibility or obligation to any Depository System Participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or a Depository System Participant, or any other person which is not shown on the register of the City as being an owner, with respect to the accuracy of any records maintained by DTC or any Depository System Participant or the payment by DTC or any Depository System Participant by DTC or any Depository System Participant of any amount in respect of the principal or interest with respect to the Bonds. The City shall cause to be paid all principal and interest with respect to the Bonds only to DTC, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to the principal and interest with respect to the Bonds to the extent of the sum or sums so paid. Except under the conditions noted below, no person other than DTC shall receive a Bond. Upon delivery by DTC to the City of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., the term "Cede & Co." in this Resolution shall refer to such new nominee of DTC.

If the City determines that it is in the best interest of the beneficial owners that they be able to obtain Bonds and delivers a written certificate to DTC and the City to that effect, DTC shall notify the Depository System Participants of the availability through DTC of Bonds. In such event, the City shall issue, transfer and exchange Bonds as requested by DTC and any other owners in appropriate amounts. DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law. Under such circumstances (if there is no successor securities depository), the City shall be obligated to deliver Bonds as described in this Resolution. Whenever DTC requests the City to do so, the City will cooperate with DTC in taking appropriate action after reasonable notice to (a) make available one or more separate Bonds evidencing the Bonds to any Depository System Participant having Bonds credited to its DTC account or (b) arrange for another securities depository to maintain custody of certificates evidencing the Bonds.

Notwithstanding any other provision of this Resolution to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal and interest with respect to such Bond and all notices with respect to such Bond shall be made and given, respectively, to DTC as provided as in the representation letter delivered on the date of issuance of the Bonds.

SECTION 2.10. *Bonds Mutilated, Lost, Destroyed or Stolen.* If any Bond becomes mutilated the City, at the expense of the Owner of said Bond, shall execute, and the Paying Agent shall thereupon authenticate and deliver, a new Bond of like maturity and principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Paying Agent of the Bond so mutilated. The Paying Agent shall cancel every mutilated Bond so surrendered to it. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and, if such evidence is satisfactory to the City and the City receives satisfactory indemnity, the City, at the expense of the Owner, shall execute, and the Paying Agent shall thereupon authenticate and deliver, a new Bond of like maturity and principal amount in lieu of and in substitution for the Bond so lost, destroyed or stolen.

The City may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be



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incurred by the City and the Paying Agent. Any Bond issued under the provisions of this Section 2.10 in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation of the City whether or not the Bond so alleged to be lost, destroyed or stolen is at any time enforceable by anyone, and such Bond will be equally and proportionately entitled to the benefits of this Resolution with all other Bonds issued under this Resolution.

Notwithstanding any other provision of this Section 2.10, in lieu of delivering a new Bond for which principal has or is about to become due for a Bond which has been mutilated, lost, destroyed or stolen, the Paying Agent may make payment of such Bond in accordance with its terms.

## **ARTICLE III**

### **SALE OF BONDS**

#### *SECTION 3.01. Sale, Issuance and Delivery of Bonds.*

(a) *Approval of Official Notice of Sale; Competitive Sale Procedures.* The Bonds shall be offered for sale by competitive bid in accordance with the provisions of the Official Notice of Sale in substantially the form on file with the City Clerk together with such additions thereto and changes therein as may be approved by a City Representative. The City authorizes the Federally Taxable Bonds and the Tax-Exempt to be separately sold pursuant to separate Notices of Sale. City Council hereby authorizes and directs a City Representative to accept the best responsible bid for the Bonds, to be determined in accordance with the related Official Notice of Sale. A City Representative, on behalf of the City, may exercise his or her own discretion and judgment in awarding the sale of the Bonds, and may, in his or her discretion, reject any and all bids and waive any irregularity or informality in any bid. Sale of the Bonds shall be awarded, or all bids shall be rejected, not later than 24 hours after the expiration of the time prescribed for the receipt of proposals unless such time of award is waived by the successful bidder.

The City Council hereby approves and authorizes the publication by Bond Counsel of one or more notices of the City's intention to sell the Bonds, in form and substance acceptable to Bond Counsel, in accordance with applicable law.

The municipal advisor to the City, PFM Financial Advisors LLC, is hereby authorized and directed by the City to cause to be furnished to prospective bidders a reasonable number of copies of such Official Notices of Sale and a reasonable number of copies of the preliminary Official Statement relating to the Bonds described in Section 3.02.

(b) *Negotiated Sale of Bonds.* One or more series of the Bonds are authorized to be sold by negotiated sale if either (a) no bids are received when such Bonds are offered for public sale under Section 3.01(a), or (b) bids are received but such bids are not satisfactory as to price or responsibility of the bidders as determined by a City Representative, as a result of which all bids for such Bonds are rejected. In such event, such Bonds are authorized to be sold by negotiation with an underwriter or investment



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bank which is designated by a City Representative upon consultation with the City's municipal advisor. Such Bonds shall be sold to such underwriter or investment bank under the Bond Purchase Agreement in a form deemed advisable by a City Representative, whose execution shall be conclusive evidence of the City Council's approval of such Bond Purchase Agreement. A City Representative is hereby authorized to accept a bid from such underwriter or investment bank to purchase such Bonds, and to execute the Bond Purchase Agreement on behalf of the City; provided that (i) the rate of interest on the Federally Taxable Bonds shall not exceed 4.00% and the underwriter's discount on the Federally Taxable Bonds shall not exceed 2.00% of the principal amount of the Federally Taxable Bonds and (ii) the rate of interest on the Tax-Exempt Bonds shall not exceed 4.50% and the underwriter's discount on the Tax-Exempt Bonds shall not exceed 2.00% of the principal amount of the Tax-Exempt Bonds.

SECTION 3.02. *Official Statement.* The City Council hereby approves and deems nearly final, within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, the preliminary Official Statement describing the Bonds in the form on file with the City Clerk. A City Representative is hereby authorized to execute an appropriate certificate stating the City Council's determination that the preliminary Official Statement has been deemed nearly final within the meaning of such Rule. A City Representative is hereby authorized and directed to approve any changes in or additions to a final form of the Official Statement, and the execution thereof by a City Representative shall be conclusive evidence of approval of any such changes and additions. A City Representative shall execute the final Official Statement in the name and on behalf of the City. The City Council hereby authorizes the distribution of the final Official Statement by the Original Purchaser.

SECTION 3.03. *Application of Proceeds of Sale of Bonds.* On the Closing Date, the Original Purchaser(s) shall pay the purchase price of the Bonds to U.S. Bank Trust Company National Association, in its capacity as escrow agent under the Escrow Agreement (2013 Bonds) and the Irrevocable Refunding Instructions and as custodian under the agreement approved pursuant to Section 3.05, to be applied as provided in Section 4.01.

SECTION 3.04. *Approval of Escrow Agreement and Irrevocable Refunding Instructions.* The City Council hereby approves the Escrow Agreement (2013 Bonds) and the Irrevocable Refunding Instructions (2010 Bonds) in substantially the forms on file with the City Clerk, together with any changes therein or additions thereto deemed advisable by a City Representative, whose execution thereof shall be conclusive evidence of such approval. A City Representative is authorized and directed for and in the name and on behalf of the City to execute, and the City Clerk is hereby authorized and directed to attest, if applicable, the final form of the Escrow Agreement (2013 Bonds) and the Irrevocable Refunding Instructions (2010 Bonds).

SECTION 3.05. *Costs of Issuance Custodian Agreement.* For the purpose of providing for the payment of Costs of Issuance, the City Council hereby authorizes a City Representative to enter into one or more Costs of Issuance Custodian Agreements with U.S. Bank Trust Company National Association in substantially the form on file with the City Clerk. As provided in said agreements, amounts provided for payment of the costs of issuing the Bonds shall be deposited thereunder and the payment of costs shall be requisitioned by a City Representative in accordance with said agreement.



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SECTION 3.06. *Engagement of Professional Services.* In connection with the issuance of the Bonds, the City Council hereby appoints PFM Financial Advisors LLC to act as municipal advisor to the City, the firm of Jones Hall, A Professional Law Corporation, to act as bond counsel to the City, and the firm of Quint & Thimmig LLP, to act as disclosure counsel to the City. A City Representative is authorized and directed to execute an agreement with each of such firms, in the respective forms on file with the City Clerk. As provided in each such agreement, compensation payable to each firm is entirely contingent upon the successful issuance and sale of the Bonds.

## ARTICLE IV

### FUNDS AND ACCOUNTS

SECTION 4.01. *Use of Proceeds.* Upon the payment by the Original Purchasers of the purchase price of the Bonds on the Closing Date, the proceeds thereof shall be applied as follows:

#### Federally Taxable Bonds

- (a) there shall be transferred to the Prior Bonds Paying Agent the amount required to be held and administered in accordance with the Escrow Agreement (2013 Bonds) for the purpose of refunding and defeasing the 2013 Bonds, and
- (b) the remainder of such amounts shall be transferred to U.S. Bank Trust Company National Association, as custodian under the related agreement approved pursuant to Section 3.05, to be applied to the payment of Costs of Issuance, and

#### Tax-Exempt Bonds

- (c) there shall be transferred to the Prior Bonds Paying Agent the amount required to be held and administered in accordance with the Irrevocable Refunding Instructions (2010 Bonds) for the purpose of refunding and defeasing the 2010 Bonds, and
- (d) the remainder of such amounts shall be transferred to U.S. Bank Trust Company National Association, as custodian under the related agreement approved pursuant to Section 3.05, to be applied to the payment of Costs of Issuance.

SECTION 4.02. *Debt Service Fund.* The City Council hereby establishes a special fund to be held by the City separate and apart from all other funds of the City, to be known as the Debt Service Fund. All taxes levied by the County, as directed by the City herein, for the payment of the principal of and interest and premium (if any) on the Bonds in accordance with Section 5.03 shall be deposited in the Debt Service Fund by the City promptly upon the receipt thereof from the County. The Debt Service Fund is hereby pledged for the payment of the principal of and interest and premium (if any) on



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the Bonds when and as the same become due. The City shall transfer amounts in the Debt Service Fund, to the extent necessary to pay the principal of and interest on the Bonds as the same become due and payable, to the Paying Agent as required to pay the principal of and interest and premium (if any) on the Bonds. In the event that the amounts in the Debt Service Fund are not sufficient to pay the principal of and interest on the Bonds as the same become due and payable, the Paying Agent shall apply such amounts in the Debt Service Fund to pay the principal of and interest on the Federally Taxable Bonds and the Tax-Exempt Bonds on a pro rata basis based on the amounts then due and payable.

If, after payment in full of the Bonds, any amounts remain on deposit in the Debt Service Fund, the City shall transfer such amounts to its General Fund, to be applied solely in a manner which is consistent with the requirements of applicable state and federal tax law.

SECTION 4.03. *Investments.* The City shall invest all moneys held in any of the funds or accounts established with it hereunder in accordance with the investment policies of the City, as such policies shall exist at the time of investment, and in accordance with Section 53601 of the California Government Code.

All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be deposited in the fund or account from which such investment was made, and shall be expended for the purposes thereof. The City covenants that all investments of amounts deposited in any fund or account created by or under this Resolution, or otherwise containing proceeds of the Bonds, shall be acquired and disposed of at the Fair Market Value thereof. For purposes of this Section 4.03, the term "Fair Market Value" means, with respect to any investment, the price at which a willing buyer would purchase such investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as described above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate that is acquired in accordance with applicable regulations under the Tax Code, or (iii) the investment is a United States Treasury Security - State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt.

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## ARTICLE V

### OTHER COVENANTS OF THE CITY; SECURITY FOR THE BONDS

SECTION 5.01. *Punctual Payment.* The City shall punctually pay, or cause to be paid, the principal of and interest on the Bonds in strict conformity with the terms of the Bonds and of this Resolution, and shall faithfully observe and perform all of the conditions, covenants and requirements of this Resolution and of the Bonds. Nothing herein contained prevents the City from making advances of its own moneys howsoever derived to any of the uses or purposes permitted by law.

SECTION 5.02. *Extension of Time for Payment.* In order to prevent any accumulation of claims for interest after maturity, the City will not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any of the Bonds and will not, directly or indirectly, approve any such arrangement by purchasing or funding said claims for interest or in any other manner.

SECTION 5.03. *Security for the Bonds.* The Bonds are general obligations of the City and the City has the power, is obligated and hereby covenants to levy ad valorem taxes upon all property within the City subject to taxation by the City, without limitation of rate or amount, for the payment of the Bonds and the interest thereon, in accordance with Section 43632 of the Government Code of the State of California. Amounts in the General Fund of the City are not pledged to the payment of the Bonds. However, nothing herein limits the ability of the City to provide for payment of the principal of and interest and premium (if any) on the Bonds from any source of legally available funds of the City. Any amounts so advanced by the City from legally available funds may be reimbursed from ad valorem property taxes subsequently collected under this Section 5.03.

SECTION 5.04. *Books and Accounts; Financial Statement.* The City will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the City in which complete and correct entries are made of all transactions relating to the Bonds. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Paying Agent and the Owners of not less than 10% in aggregate principal amount of the Bonds then Outstanding, or their representatives authorized in writing.

SECTION 5.05. *Protection of Security and Rights of Bond Owners.* The City will preserve and protect the security of the Bonds and the rights of the Bond Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any of the Bonds by the City, the City may not contest the authorization, issuance, sale or repayment of the Bonds.

SECTION 5.06. *Tax Covenants Relating to the Tax-Exempt Bonds.* The City shall take all actions necessary to assure the exclusion of interest on the Tax-Exempt Bonds from the gross income of the Owners of the Tax-Exempt Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the Closing Date. To that end, and without limiting the generality of the



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foregoing covenant, the City hereby covenants with the Owners of the Tax-Exempt Bonds as follows:

- (a) Private Activity Bond Limitation. The proceeds of the Tax-Exempt Bonds may not be so used as to cause the Tax-Exempt Bonds to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.
- (b) Federal Guarantee Prohibition. The City may not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Tax-Exempt Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Tax Code.
- (c) No Arbitrage. The City may not take, or permit or suffer to be taken by the Paying Agent or otherwise, any action with respect to the Tax-Exempt Bond proceeds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Tax-Exempt Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Tax Code.
- (d) Rebate of Excess Investment Earnings. The City shall calculate or cause to be calculated all amounts of excess investment earnings with respect to the Tax-Exempt Bonds which are required to be rebated to the United States of America under Section 148(f) of the Tax Code, at the times and in the manner required under the Tax Code. The City shall pay or cause to be paid when due an amount equal to excess investment earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code, such payments to be made from any source of legally available funds of the City. The City shall keep or cause to be kept, and retain or cause to be retained for a period of six years following the retirement of the Tax-Exempt Bonds, records of the determinations made under this subsection (d).
- (e) Maintenance of Tax-Exemption. The City shall take all actions necessary to assure the exclusion of interest on the Tax-Exempt Bonds from the gross income of the owners of the Tax-Exempt Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the date of issuance of the Tax-Exempt Bonds.
- (f) Record Retention. The City will retain its records of all accounting and monitoring it carries out with respect to the Tax-Exempt Bonds for at least 3 years after the Tax-Exempt Bonds mature or are redeemed (whichever is earlier); however, if the Tax-Exempt Bonds are redeemed and refunded, the City will retain its records of accounting and monitoring at least 3 years after the earlier of the maturity or redemption of the obligations that refunded the Tax-Exempt Bonds.



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- (g) Compliance with Tax Certificate. The City will comply with the provisions of the Certificate as to Arbitrage and the Certificate Regarding Use of Proceeds with respect to the Tax-Exempt Bonds. The covenants of this Section will survive payment in full or defeasance of the Tax-Exempt Bonds.

SECTION 5.06. *Tax Covenants Relating to the 2013 Bonds.* The City shall take all actions necessary to assure the exclusion of interest on the 2013 Bonds from the gross income of the Owners of the 2013 Bonds until the redemption in full of the 2013 Bonds. Without limiting the generality of the foregoing, the City covenants and agrees as follows:

- (a) Private Activity Bond Limitation. The City will take all actions necessary to assure that the proceeds of the 2013 Bonds are not used as to cause the 2013 Bonds to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.
- (b) Federal Guarantee Prohibition. The City will not take any action or permit or suffer any action to be taken if the result of the same would be to cause the 2013 Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Tax Code.
- (c) No Arbitrage. The City will not take, or permit or suffer to be taken by the Paying Agent or otherwise, any action with respect to the 2013 Bond proceeds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the 2013 Bonds, would have caused the 2013 Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Tax Code.
- (d) Rebate Requirement. The City will take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the 2013 Bonds.
- (e) Record Retention. The City will retain its records of all accounting and monitoring it carries out with respect to the 2013 Bonds for at least 3 years after the 2013 are fully redeemed.
- (f) Unspent Proceeds. As of the date of this Resolution, the City is holding approximately \$598,921 of 2013 Bond proceeds in the Project Fund established for the 2013 Bonds. The City has awarded and will execute prior to the Closing Date a contract for roof and gutter work at Mitchell Park Library with an expected completion date of October 1, 2022. A City Representative is hereby directed on the Closing Date to reserve \$250,000 of the amounts in the Project Fund to pay for the costs of such project and to transfer any other amounts in the Project Fund to the Prior Bonds Paying Agent



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for deposit in the Escrow Fund established under the Escrow Agreement (2013 Bonds).

SECTION 5.08. *Continuing Disclosure.* The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate, which a City Representative is hereby authorized and directed to execute and deliver on the Closing Date. Notwithstanding any other provision of this Resolution, failure of the City to comply with the Continuing Disclosure Certificate will not be considered a default by the City hereunder or under the Bonds; however, any Participating Underwriter (as such term is defined in the Continuing Disclosure Certificate) or any holder or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

SECTION 5.09. *Further Assurances.* The City will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Resolution, and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in this Resolution.

## **ARTICLE VI**

### **THE PAYING AGENT**

SECTION 6.01. *Appointment of Paying Agent.* U.S. Bank Trust Company National Association is hereby appointed to act as Paying Agent for the Bonds. The Paying Agent undertakes to perform such duties, and only such duties, as are specifically set forth in this Resolution, and even during the continuance of an event of default with respect to the Bonds, no implied covenants or obligations shall be read into this Resolution against the Paying Agent. The Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by this Resolution by executing and delivering to the City a certificate to that effect.

The City may remove the Paying Agent initially appointed, and any successor thereto, and may appoint a successor or successors thereto, but any such successor shall be a bank or trust company doing business and having an office in the State of California, having a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000, and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, under law or under the requirements of any supervising or examining authority above referred to, then for the purposes of this Section 6.01 the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Paying Agent may at any time resign by giving written notice to the City and the Bond Owners of such resignation. Upon receiving notice of such resignation, the City shall promptly appoint a successor Paying Agent by an instrument in writing. Any resignation or removal of the Paying Agent and appointment of a successor Paying



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Agent becomes effective upon acceptance of appointment by the successor Paying Agent.

The City Council hereby approves an agreement with the Paying Agent in substantially the form on file with the City Clerk, together with any changes therein or additions thereto deemed advisable by a City Representative, whose execution thereof shall be conclusive evidence of such approval. A City Representative is authorized and directed for and in the name and on behalf of the City to execute, and the City Clerk is hereby authorized and directed to attest, if applicable, the final form of the agreement with the Paying Agent.

SECTION 6.02. *Paying Agent May Hold Bonds.* The Paying Agent may become the Owner of any of the Bonds in its own or any other capacity with the same rights it would have if it were not Paying Agent.

SECTION 6.03. *Liability of Paying Agent.* The recitals of facts, covenants and agreements herein and in the Bonds contained shall be taken as statements, covenants and agreements of the City, and the Paying Agent assumes no responsibility for the correctness of the same, nor makes any representations as to the validity or sufficiency of this Resolution or of the Bonds, nor shall incur any responsibility in respect thereof, other than as set forth in this Resolution. The Paying Agent is not liable in connection with the performance of its duties hereunder, except for its own negligence or willful default.

In the absence of bad faith, the Paying Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Paying Agent and conforming to the requirements of this Resolution.

The Paying Agent has no liability for any error of judgment made in good faith by a responsible officer of its corporate trust department in the absence of the negligence of the Paying Agent.

No provision of this Resolution requires the Paying Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it has reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The Paying Agent may execute any of the powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Paying Agent is not responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

SECTION 6.04. *Notice to Paying Agent.* The Paying Agent may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The Paying Agent may consult with counsel, who may be of counsel to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete



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authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever in the administration of its duties under this Resolution the Paying Agent deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of bad faith on the part of the Paying Agent, be deemed to be conclusively proved and established by a certificate of the City, and such certificate will be full warrant to the Paying Agent for any action taken or suffered under the provisions of this Resolution upon the faith thereof, but in its discretion the Paying Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

SECTION 6.05. *Compensation; Indemnification.* The City will pay to the Paying Agent from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution. The City further agrees to indemnify the Paying Agent against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder which are not due to its negligence or bad faith.

## ARTICLE VII

### REMEDIES OF BOND OWNERS

SECTION 7.01. *Remedies of Bond Owners.* Upon the happening and continuation of any default by the City hereunder or under the Bonds, any Bond Owner has the right, for the equal benefit and protection of all Bond Owners similarly situated:

- (a) by mandamus, suit, action or proceeding, to compel the City and its members, officers, agents or employees to perform each and every term, provision and covenant contained in this Resolution and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the City and the fulfillment of all duties imposed upon it;
- (b) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Bond Owners' rights; or
- (c) by suit, action or proceeding in any court of competent jurisdiction, to require the City and its members and employees to account as if it and they were the trustees of an express trust.

SECTION 7.02. *Remedies Not Exclusive.* No remedy herein conferred upon the Owners of Bonds is exclusive of any other remedy. Each remedy is cumulative and shall be in addition to every other remedy given hereunder or thereafter conferred on the Bond Owners.



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## ARTICLE VIII

### AMENDMENT OF THIS RESOLUTION

SECTION 8.01. *Amendments Effective Without Consent of the Owners.* For any one or more of the following purposes and at any time or from time to time, the City Council may by Supplemental Resolution amend this Resolution in whole or in part, without the consent of any of the Bond Owners:

- (a) to add to the covenants and agreements of the City in this Resolution, other covenants and agreements to be observed by the City which are not contrary to or inconsistent with this Resolution as theretofore in effect;
- (b) to confirm, as further assurance, any pledge under, and to subject to any lien or pledge created or to be created by, this Resolution, of any moneys, securities or funds, or to establish any additional funds or accounts to be held under this Resolution;
- (c) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in this Resolution, which in any event does not materially adversely affect the interests of the Bond Owners, in the opinion of Bond Counsel filed with the City; or
- (d) to make such additions, deletions or modifications as may be necessary to assure compliance with the applicable provisions of the Tax Code relating to the rebate of excess investment earnings to the United States or otherwise as may be necessary to assure that the interest on the Bonds remains excludable from gross income of the Owners thereof for federal income tax purposes, in the opinion of Bond Counsel filed with the City.

SECTION 8.02. *Amendments Effective With Consent to the Owners.* Any modification or amendment of this Resolution and of the rights and obligations of the City and of the Owners of the Bonds, in any particular, may be made by a Supplemental Resolution, with the written consent of the Owners of a majority in aggregate principal amount of the Bonds Outstanding at the time such consent is given. Without the consent of the Owners of all affected Bonds, no such modification or amendment may (a) change the maturity of the principal of any Bonds or any interest payable thereon, (b) reduce the principal amount of the Bonds or the rate of interest thereon, (c) reduce the percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, (d) change any of the provisions in Section 7.01 relating to a default by the City hereunder or under the Bonds, (e) reduce the amount of moneys pledged for the repayment of the Bonds. Without the consent of the Paying Agent, no such modification or amendment may change or modify any of the rights or obligations of the Paying Agent.



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## ARTICLE IX

### MISCELLANEOUS

SECTION 9.01. *Benefits of Resolution Limited to Parties.* Nothing in this Resolution, expressed or implied, is intended to give to any person other than the City, the Paying Agent and the Owners of the Bonds, any right, remedy, claim under or by reason of this Resolution. Any covenants, stipulations, promises or agreements in this Resolution contained by and on behalf of the City shall be for the sole and exclusive benefit of the Owners of the Bonds.

#### SECTION 9.02. *Defeasance.*

(a) Discharge of Resolution. Bonds may be paid by the City, in whole or in part, in any of the following ways provided that the City also pays or causes to be paid any other sums payable hereunder by the City:

- (i) by paying or causing to be paid the principal of and interest on such Bonds, as and when the same become due and payable;
- (ii) by irrevocably depositing, in trust, at or before maturity, money or securities in the necessary amount to pay such Bonds as provided in Section 9.02(c); or
- (iii) by delivering such Bonds to the Paying Agent for cancellation by it.

If the City pays all Outstanding Bonds and also pays or causes to be paid all other sums payable hereunder by the City, then and in that case, at the election of the City (evidenced by a certificate of a City Representative filed with the Paying Agent, signifying the intention of the City to discharge all such indebtedness and this Resolution), and notwithstanding that any Bonds have not been surrendered for payment, this Resolution, all taxes and other assets pledged under this Resolution and all covenants, agreements and other obligations of the City under this Resolution shall cease, terminate, become void and be completely discharged and satisfied, except only as provided in Section 9.02(b). In such event, upon request of the City, the Paying Agent shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and shall execute and deliver to the City all such instruments as may be necessary to evidence such discharge and satisfaction, and the Paying Agent shall pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it under this Resolution which are not required for the payment of Bonds not theretofore surrendered for such payment.

(b) Discharge of Liability on Bonds. Upon the deposit, in trust, at or before maturity, of money or securities in the necessary amount to pay any Outstanding Bond Bonds as provided in Section 9.02(c), then all liability of the City in respect of such Bond will cease and be completely discharged, except only that thereafter the Owner thereof is entitled only to payment of the principal of and interest on such Bond by the City, and the City remains liable for such payment, but only out of such money or securities deposited with the Paying Agent as aforesaid for such payment, provided further, however, that the provisions of Section 9.02(d) apply in all events.



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The City may at any time surrender to the Paying Agent for cancellation by it any Bonds previously issued and delivered, which the City acquires in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed paid and retired.

(c) Deposit of Money or Securities with Paying Agent. Whenever in this Resolution it is provided or permitted that there be deposited with or held in trust by the Paying Agent money or securities in the necessary amount to pay any Bonds, the money or securities so to be deposited or held may include money or securities held by the Paying Agent in the funds and accounts established under this Resolution and must be:

- (i) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity; or
- (ii) Federal Securities the principal of and interest on which when due, in the opinion of a certified public accountant delivered to the City, will provide money sufficient to pay the principal of and all unpaid interest to maturity on the Bonds to be paid, as such principal and interest become due.

(d) Payment of Bonds After Discharge of Resolution. Notwithstanding any provisions of this Resolution, any moneys held by the Paying Agent in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for two years after the principal of all of the Bonds has become due and payable, if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall, upon request of the City, be repaid to the City free from the trusts created by this Resolution, and all liability of the Paying Agent with respect to such moneys shall thereupon cease. Before the repayment of such moneys to the City as aforesaid, the Paying Agent may (at the cost of the City) first mail to the Owners of all Bonds which have not been paid at the addresses shown on the Registration Books a notice in such form as may be deemed appropriate by the Paying Agent, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof.

SECTION 9.03. *Execution of Documents and Proof of Ownership by Bond Owners.* Any request, declaration or other instrument which this Resolution may require or permit to be executed by Bond Owners may be in one or more instruments of similar tenor, and shall be executed by Bond Owners in person or by their attorneys appointed in writing.

Except as otherwise herein expressly provided, the fact and date of the execution by any Bond Owner or his attorney of such request, declaration or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he purports to act, that the person signing such request, declaration or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer.



\*NOT YET APPROVED\*

Except as otherwise herein expressly provided, the ownership of registered Bonds and the amount, maturity, number and date of holding the same are proved by the Registration Books.

Any request, declaration or other instrument or writing of the Owner of any Bond binds all future Owners of such Bond in respect of anything done or suffered to be done by the City or the Paying Agent in good faith and in accordance therewith.

SECTION 9.04. *Waiver of Personal Liability.* No City Council member, officer, agent or employee of the City has any individual or personal liability for the payment of the principal of or interest on the Bonds. Nothing herein contained relieves any City Council member, officer, agent or employee from the performance of any official duty provided by law.

SECTION 9.05. *Destruction of Canceled Bonds.* Whenever in this Resolution provision is made for the surrender to the City of any Bonds which have been paid or canceled under the provisions of this Resolution, a certificate of destruction duly executed by the Paying Agent constitutes the equivalent of the surrender of such canceled Bonds and the City is entitled to rely upon any statement of fact contained in any certificate with respect to the destruction of any such Bonds therein referred to.

SECTION 9.06. *Partial Invalidity.* If any section, paragraph, sentence, clause or phrase of this Resolution is for any reason held illegal or unenforceable, such holding will not affect the validity of the remaining portions of this Resolution. The City hereby declares that it would have adopted this Resolution and each and every other section, paragraph, sentence, clause or phrase hereof and authorized the issue of the Bonds pursuant hereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses, or phrases of this Resolution may be held illegal, invalid or unenforceable.

SECTION 9.07. *Execution of Documents.* Each City Representative, and any and all other officers of the City, are each authorized and directed in the name and on behalf of the City to make any and all certificates, requisitions, agreements, notices, consents, warrants and other documents, which they or any of them might deem necessary or appropriate in order to consummate the lawful issuance, sale and delivery of the Bonds. Whenever in this Resolution any officer of the City is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer shall be absent or unavailable.

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\*NOT YET APPROVED\*

SECTION 9.08. *Effective Date of Resolution.* This Resolution becomes effective upon the date of its passage and adoption.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

\_\_\_\_\_  
City Clerk

\_\_\_\_\_  
Mayor

APPROVED AS TO FORM:

APPROVED:

\_\_\_\_\_  
Chief Assistant City Attorney

\_\_\_\_\_  
City Manager

\_\_\_\_\_  
Director of Administrative  
Services

I HEREBY CERTIFY that the foregoing resolution was duly and regularly passed and adopted by the City Council of the City of Palo Alto at a regular meeting thereof held on the 2nd day of May, 2022, and that the foregoing is a full, true and correct copy of said Resolution.

\_\_\_\_\_  
City Clerk



\*NOT YET APPROVED\*

**APPENDIX A****FORM OF BOND**

REGISTERED BOND NO. \_\_\_\_\_ \$ \_\_\_\_\_

**CITY OF PALO ALTO  
GENERAL OBLIGATION REFUNDING BONDS (ELECTION OF  
2008), SERIES \_\_\_\_\_**

<b>INTEREST RATE:</b>	<b>MATURITY DATE:</b>	<b>DATED DATE:</b>	<b>CUSIP</b>
_____ % per annum	August 1, _____		

REGISTERED OWNER: CEDE &amp; CO.

PRINCIPAL AMOUNT:

The CITY OF PALO ALTO, a charter city and municipal corporation duly organized and existing under the Constitution and laws of the State of California (the "City"), for value received, hereby promises to pay to the Registered Owner named above, or registered assigns, the Principal Amount set forth above on the Maturity Date set forth above, together with interest thereon at the Interest Rate set forth above, calculated on a 30/360 day basis, until the Principal Amount hereof is paid or provided for, such interest to be paid on February 1 and August 1 of each year, commencing February 1, 2023 (the "Interest Payment Dates"). This Bond will bear interest from the Interest Payment Date next preceding the date of authentication hereof, unless (a) it is authenticated as of a business day following the 15<sup>th</sup> day of the month immediately preceding any Interest Payment Date and on or before such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (b) it is authenticated on or before January 15, 2023, in which event it shall bear interest from the Dated Date set forth above.

Principal, interest and redemption premium (if any) are payable in lawful money of the United States of America to the person in whose name this Bond is registered (the "Registered Owner") on the Bond registration books maintained by the Paying Agent, initially U.S. Bank Trust Company National Association, San Francisco, California. Principal hereof and any redemption premium hereon are payable upon presentation and surrender of this Bond at the principal corporate trust office of the Paying Agent. Interest hereon is payable by check mailed by the Paying Agent on each Interest Payment Date to the Registered Owner of this Bond by first-class mail at the address appearing on the Bond registration books at the close of business on the 15<sup>th</sup> day of the calendar month next preceding such Interest Payment Date (the "Record Date");



\*NOT YET APPROVED\*

*provided, however,* that at the written request of the registered owner of Bonds in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Paying Agent prior to any Record Date, interest on such Bonds shall be paid on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as shall be specified in such written request.

This Bond is one of a duly authorized issue of Bonds of the City designated as "City of Palo Alto 2022 General Obligation Refunding Bonds (Election of 2008), Series \_\_\_\_\_" (the "Bonds"), in an aggregate principal amount of \$\_\_\_\_\_, all of like tenor and date (except for such variation, if any, as may be required to designate varying numbers, maturities, interest rates and other provisions) and all issued under the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Bond Law"), and under a resolution adopted by the City Council of the City on May 9, 2022 (the "Resolution") authorizing the issuance of the Bonds. Reference is hereby made to the Resolution (copies of which are on file at the office of the City Clerk) and the Bond Law for a description of the terms on which the Bonds are issued and the rights thereunder of the owners of the Bonds and the rights, duties and immunities of the Paying Agent and the rights and obligations of the City thereunder, to all of the provisions of which Resolution the Owner of this Bond, by acceptance hereof, assents and agrees.

The Bonds have been issued by the City to refund and discharge outstanding general obligation bonds of the City, the issuance of which was authorized by a vote of more than two-thirds of the qualified voters of the City voting at a special municipal election held on November 4, 2008.

The principal of and interest and redemption premium, if any, on this Bond do not constitute a debt of the County, the State of California, or any of its political subdivisions other than the City, or any of the officers, agents and employees thereof, and neither the County, the State of California, any of its political subdivisions other than the City, nor any of the officers, agents and employees thereof shall be liable hereon. In no event shall the principal of and interest and redemption premium, if any, on this Bond be payable out of any funds or properties of the City other than ad valorem taxes levied upon all taxable property in the City.

The Bonds are issuable only as fully registered Bonds in the denominations of \$5,000 or any integral multiple thereof. This Bond is exchangeable and transferable for Bonds of other authorized denominations at the principal corporate trust office of the Paying Agent, by the Registered Owner or by a person legally empowered to do so, upon presentation and surrender hereof to the Paying Agent, together with a request for exchange or an assignment signed by the Registered Owner or by a person legally empowered to do so, in a form satisfactory to the Paying Agent, all subject to the terms, limitations and conditions provided in the Bond Resolution. Any tax or governmental charges shall be paid by the transferor. The City and the Paying Agent may deem and treat the Registered Owner as the absolute owner of this Bond for the purpose of receiving payment of or on account of principal or interest and for all other purposes, and neither the City nor the Paying Agent shall be affected by any notice to the contrary.

The Bonds maturing on or before August 1, 20\_\_, are not subject to redemption prior to their respective stated maturities. The Bonds maturing on or after August 1,



\*NOT YET APPROVED\*

20\_\_, are subject to redemption prior to maturity as a whole, or in part among maturities on such basis as shall be designated by the City and by lot within a maturity, at the option of the City, from any available source of funds, on August 1, 20\_\_, and on any Interest Payment Date thereafter, at a redemption price (expressed as a percentage of the principal amount of Bonds to be redeemed) as set forth in the following table, together with interest thereon to the date fixed for redemption.

Redemption Dates

Redemption Price

[If applicable:] The Bonds maturing on August 1, 20\_\_ (the "Term Bonds") are also subject to mandatory sinking fund redemption on August 1 in the years, and in the amounts, as set forth in the following table, at a redemption price equal to 100% of the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; *provided, however*, that if some but not all of the Term Bonds have been redeemed under the preceding paragraph, the aggregate principal amount of Term Bonds to be redeemed under this paragraph shall be reduced on a pro rata basis in integral multiples of \$5,000, as shall be designated in written notice filed by the City with the Paying Agent.

Sinking Fund  
Redemption Date  
(August 1)

Principal  
Amount To Be  
Redeemed

The Paying Agent shall give notice of the redemption of the Bonds at the expense of the City. Such notice shall specify: (a) that the Bonds or a designated portion thereof are to be redeemed, (b) the numbers and CUSIP numbers of the Bonds to be redeemed, (c) the date of notice and the date of redemption, (d) the place or places where the redemption will be made, and (e) descriptive information regarding the Bonds including the dated date, interest rate and stated maturity date. Such notice shall further state that on the specified date there shall become due and payable upon each Bond to be redeemed, the portion of the principal amount of such Bond to be redeemed, together with interest accrued to said date, the redemption premium, if any, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

Notice of any redemption of Bonds shall be mailed by first class mail, postage prepaid, at least 20 days but not more than 60 days prior to the date fixed for redemption, to the respective Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books maintained by the Paying Agent; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice shall not affect the validity of the proceedings for the



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redemption of such Bonds or the cessation of accrual of interest thereon from and after the redemption date. The redemption notice may be conditional and may be rescinded in the circumstances set forth in the Resolution.

Neither the City nor the Paying Agent will be required: (a) to issue or transfer any Bond during a period beginning with the opening of business on the 15<sup>th</sup> calendar day next preceding either any Interest Payment Date or any date of selection of any Bond to be redeemed and ending with the close of business on the Interest Payment Date or a day on which the applicable notice of redemption is given, or (b) to transfer any Bond which has been selected or called for redemption in whole or in part.

Reference is made to the Bond Resolution for a more complete description of the provisions, among others, with respect to the nature and extent of the security for the Bonds, the rights, duties and obligations of the City, the Paying Agent and the Registered Owners, and the terms and conditions upon which the Bonds are issued and secured. The owner of this Bond assents, by acceptance hereof, to all of the provisions of the Bond Resolution.

It is certified, recited and declared that all acts and conditions required by the Constitution and laws of the State of California to exist, to be performed or to have been met precedent to and in the issuing of the Bonds in order to make them legal, valid and binding general obligations of the City, have been performed and have been met in regular and due form as required by law; that payment in full for the Bonds has been received; that no statutory or constitutional limitation on indebtedness or taxation has been exceeded in issuing the Bonds; and that due provision has been made for levying and collecting ad valorem property taxes on all of the taxable property within the City in an amount sufficient to pay principal and interest when due, and for levying and collecting such taxes the full faith and credit of the City are hereby pledged.

This Bond shall not be valid or obligatory for any purpose and shall not be entitled to any security or benefit under the Bond Resolution until the Certificate of Authentication below has been manually signed by the Paying Agent.

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the City or the Paying Agent for registration of transfer, exchange, or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.



\*NOT YET APPROVED\*

IN WITNESS WHEREOF, the City of Palo Alto has caused this Bond to be executed by the facsimile signature of its Mayor and attested by the facsimile signature of its City Clerk, and has caused the seal of the City to be reproduced hereon, all as of the date stated above.

**CITY OF PALO ALTO**

By \_\_\_\_\_  
Mayor

Attest:

\_\_\_\_\_  
City Clerk



\*NOT YET APPROVED\*

**CERTIFICATE OF AUTHENTICATION**

This Bond is one of the Bonds described in the Bond Resolution referred to herein.

Date of Authentication:

**U.S. BANK TRUST COMPANY  
NATIONAL ASSOCIATION**, as Paying  
Agent

By \_\_\_\_\_  
Authorized Signatory

**FORM OF ASSIGNMENT**

For value received, the undersigned do(es) hereby sell, assign and transfer unto

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
(Name, Address and Tax Identification or Social Security Number of Assignee)

the within Bond and do(es) hereby irrevocably constitute and appoint  
\_\_\_\_\_  
attorney, to transfer the same on the registration books of the Bond  
Registrar, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signature Guaranteed:

\_\_\_\_\_  
Note: Signature(s) must be guaranteed by a an  
eligible guarantor institution.

\_\_\_\_\_  
Note: The signature(s) on this Assignment must  
correspond with the name(s) as written on the face  
of the within Bond in every particular without  
alteration or enlargement or any change  
whatsoever.



\*NOT YET APPROVED\*

**APPENDIX B****REQUIRED DISCLOSURES PURSUANT TO  
GOVERNMENT CODE SECTION 5852.1\***

The following information consists of estimates that have been provided by the City's municipal advisor which has been represented by such party to have been provided in good faith:

Federally Taxable Bonds

1. Estimated True Interest Cost of the Federally Taxable Bonds: 3.82%
2. Estimated finance charge of the Federally Taxable Bonds, being the sum of all fees and charges paid to third parties, in the amount of approximately \$189,286.24. Such amount consists of costs of issuing the Federally Taxable Bonds in the amount of approximately \$60,301.43, together with estimated underwriter's compensation in the amount of \$128,984.81.
3. Estimated proceeds of the Federally Taxable Bonds expected to be received by the City for deposit pursuant to the Escrow Agreement (2013 Bonds), net of proceeds for Costs of Issuance in (2) above to paid, capitalized interest and reserves (if any) from the principal amount of the Federally Taxable Bonds: \$13,485,713.76
4. Estimated Total Payment Amount for the Federally Taxable Bonds, being the sum of all debt service to be paid on the Federally Taxable Bonds to final maturity: \$19,423,309.44.

Tax-Exempt Bonds

1. Estimated True Interest Cost of the Tax-Exempt Bonds: 3.14%
2. Estimated finance charge of the Tax-Exempt Bonds, being the sum of all fees and charges paid to third parties, in the amount of approximately \$535,343.37. Such amount consists of costs of issuing the Tax-Exempt Bonds in the amount of approximately \$163,578.18, together with estimated underwriter's compensation in the amount of \$371,765.19.
3. Estimated proceeds of the Tax-Exempt Bonds expected to be received by the City for deposit pursuant to the Irrevocable Refunding Instructions (2010 Bonds), net of proceeds for Costs of Issuance in (2) above to paid, capitalized interest and reserves (if any) from the principal amount of the Tax-Exempt Bonds: \$38,879,289.28.



\*NOT YET APPROVED\*

4. Estimated Total Payment Amount for the Tax-Exempt Bonds, being the sum of all debt service to be paid on the Tax-Exempt Bonds to final maturity: \$51,318,000

*\*All amounts and percentages are estimates, and are made in good faith by the City based on information available as of the date of adoption of this Resolution. Estimates include certain assumptions regarding tax-exempt interest rates available in the bond market at the time of pricing the Bonds.*



## Attachment B

**City of Palo Alto  
General Obligation (Refunding) Bonds  
Series 2022A (Tax-Exempt) and Series 2022B (Federally Taxable) Bonds  
Bond Issuance Expense Estimates**

**Costs of Issuance (COI) Estimates:**

Bond Counsel (Jones Hall), includes expenses	\$	66,500	29.7%
Disclosure Counsel (Quint & Thimmig, LLP)		30,000	13.4%
Financial Advisor (PFM Financial Advisors, LLC), includes expenses		63,000	28.1%
Trustee (U.S. Bank)		10,000	4.5%
Rating Agency (Standard & Poor's)		31,750	14.2%
Verification Agent (TBD)		1,750	0.8%
Printer		1,000	0.4%
Parity Bid Platform		1,000	0.4%
Contingency		18,880	8.4%
<b>Total Cost of Issuance (COI)</b>	<b>\$</b>	<b>223,880</b>	<b>100%</b>
<b>Underwriter's Discount Fee</b>		500,750	
<b>Total Bond Issuance Expense Estimates</b>	<b>\$</b>	<b>724,630</b>	



## PAYING AGENCY AGREEMENT

This **Paying Agency Agreement** (the “Agreement”), entered into as of June \_\_, 2022, by and between the **City of Palo Alto** (the “Issuer”) and **U.S. Bank Trust Company National Association**, a national banking association having a corporate trust office at San Francisco, California (the “Paying Agent”),

### WITNESSETH:

**WHEREAS**, by the resolutions described in **Exhibit A** attached hereto (the “Authorization”), the Issuer authorized the issuance of its Bonds or Notes as described in **Exhibit A** attached hereto (the “Bonds” or “Notes”) and

**WHEREAS**, said Authorization authorized the Issuer to enter into an agreement of appointment with a bond registrar/transfer agent and paying agent to service such Bonds or Notes.

**NOW, THEREFORE**, the Issuer and the Paying Agent agree as follows:

**Section 1. Appointment and Acceptance.** The Issuer hereby appoints U.S. Bank Trust Company National Association as bond registrar/transfer agent and paying agent for the Bonds or Notes, and the Paying Agent accepts such appointments, acknowledging the duties, obligations and responsibilities of the Paying Agent as set forth herein.

**Section 2. Documents to be Filed with the Paying Agent.** The following documents shall be filed with the Paying Agent in connection with its appointment:

- (i) a copy of the Authorization.
- (ii) if not printed on the Bonds or Notes, an opinion of bond counsel stating that (a) the Bonds or Notes are valid and legally binding obligations of the Issuer, payable in accordance with their terms and (b) if applicable, the interest on such Bonds or Notes is not included in gross income for federal income tax purposes;
- (iii) a specimen certificate in the form approved by the Issuer;
- (iv) if the Bonds or Notes have been delivered prior to the Paying Agent’s appointment:
  - (1) a list containing the name, address and taxpayer identification number of each holder of the Bonds or Notes as of the date of Paying Agent’s appointment, indicating the date of issuance, the authentication date, the certificate number and the denomination for each outstanding certificate, and
  - (2) a list of stop transfer orders maintained by the Issuer (or its prior paying agents) against outstanding Bond or Note certificates giving details as to certificate numbers, denominations, names of registered owners and dates of stop transfer orders, and, if such certificates have been replaced, the numbers and denominations of the replacement certificates, dates of replacements and documents evidencing the indemnity accepted in connection with the issuance of the replacement certificates; and
- (v) such other instruments and certificates as the Paying Agent may reasonably request.

**Section 3. Registration, Authentication and Delivery of Initial Bonds or Notes.** If the Bonds or Notes are to be newly issued, the Issuer will, or will cause its underwriter to:



- (i) deliver to Paying Agent, not later than five (5) business days prior to the required delivery date, written notice setting forth the maturity date, principal amount and interest rate borne by the Bonds or Notes;
- (ii) notify the Paying Agent in writing, not later than three (3) business days prior to the required delivery date, of the name(s) in which Bonds or Notes are to be registered, the mailing addresses of the respective registered holders and their respective taxpayer identification numbers, and the quantity, denominations, interest rates, maturity dates and CUSIP numbers of the certificates to be issued to each registered holder.

The Paying Agent shall inscribe the Bonds or Notes as directed in Section 3(ii) above, authenticate the initial Bonds or Notes and deliver same in accordance with the written directions of the Issuer or its underwriter. If delivered before the Closing, such initial Bonds or Notes shall remain subject to the control of the Paying Agent, as agent for the Issuer, until released by the Paying Agent.

**Section 4. Transfer or Exchange of Certificates.** The Paying Agent is authorized, empowered and directed to inscribe, to countersign or authenticate as registrar, and to record and deliver new certificates for Bonds or Notes of the Issuer pursuant to requests for transfer and cancellation of other certificates theretofore outstanding, or to replace lost, destroyed, stolen or mutilated certificates, as provided in Section 6 hereof.

If the transfer and/or exchange of the Bond or Note certificate shall have been documented in the manner authorized or required by law, and if the rules, regulations, policies and procedures of the Issuer and of the Paying Agent, governing the transfer and registration of the Bonds or Notes shall have been met, then the Paying Agent shall cancel such certificate being transferred and/or exchanged and shall inscribe, authenticate, record and deliver a new certificate for the Bonds or Notes so transferred or exchanged. In the transfer of Bond or Note certificates, the Paying Agent may require a guarantee of signature by an eligible guarantor institution participating in a recognized signature guarantee program.

The Paying Agent shall incur no liability for the refusal in good faith to make transfers which it, in its judgment, deems improper or unauthorized. The Paying Agent may, in effecting transfers, rely upon the Uniform Commercial Code of the State of California and/or the rules of the Stock Transfer Association, Inc.

Prior to any transfer of the Bonds outside the book-entry system (including, but not limited to, the initial transfer outside the book-entry system) the transferor shall provide or cause to be provided to the Paying Agent all information necessary to allow the Paying Agent to comply with any applicable tax reporting obligations, including without limitation any cost basis reporting obligations under Internal Revenue Code Section 6045, as amended. The Paying Agent shall conclusively rely on the information provided to it and shall have no responsibility to verify or ensure the accuracy of such information. The Paying Agent acknowledges that the Issuer has no obligation to enforce any obligations imposed by this paragraph on the owners of the Bonds.

**Section 5. Bond or Note Certificates.** The Issuer will furnish to the Paying Agent a sufficient supply of blank Bond or Note certificates and, from time to time, will replenish such supply upon request of the Paying Agent. Such blank Bond or Note certificates shall be signed by officers of the Issuer, authorized by the Issuer to sign Bond or Note certificates, and shall bear the seal of the Issuer or shall bear, to the extent permitted by law, the facsimile signature of each such officer and a facsimiles of the seal. If an officer of the Issuer, whose signature appears on any Bond or Note certificate, ceases to be an officer of the Issuer before delivery of said Bond or Note certificate, such signature nevertheless shall be valid and sufficient for all purposes, the same as if such officer of the Issuer had remained in office until such delivery and the Paying Agent may inscribe, authenticate, and deliver such certificate as being that of the Issuer whose signature properly shall have been inscribed on such Bond or Note certificate prior to its issuance.

**Section 6. Records of Certificates; Lost or Destroyed Certificates.** The Paying Agent may open and keep such books and other records, including a bond register, as shall be required for, or



convenient in, the performance of its duties. If Bonds or Notes have been issued and delivered prior to the Paying Agent's appointment, the Paying Agent may accept and adopt as a part of such records all lists of holders of records as may have been employed by any former bond registrar/transfer agent and paying agent for such Bonds or Notes if certified by such former bond registrar/transfer agent and paying agent. The Paying Agent shall use such list of holders of record of the Issuer's Bond or Note certificates as sufficient basis for its records and verification of Bond or Note certificates therein described.

Upon receiving written instructions from the Issuer and indemnity satisfactory to the Paying Agent and the Issuer, the Paying Agent may inscribe, authenticate and deliver, to the persons entitled thereto, new certificates in place of certificates represented to have been lost, stolen or destroyed and likewise may issue a new certificate in exchange for, and upon surrender of, an identifiable mutilated certificate.

**Section 7. Payments of Interest and Principal.** The Paying Agent shall act as paying agent for the Bonds or Notes and in such capacity it shall:

- (i) with funds provided by Issuer, pay the interest upon the Bonds or Notes by mailing checks to the persons entitled to receive such interest, as determined by the registry of the Issuer maintained by the Paying Agent, provided that Issuer shall have deposited with the Paying Agent, on or before the day upon which interest checks are to be mailed, sufficient immediately available funds to cover payment of such interest;
- (ii) with funds provided by Issuer, pay the principal amount (including premium, if any) of the Bonds or Notes to the registered holders of such Bonds or Notes, upon the maturity date or earlier redemption date upon which the principal is to become payable and upon delivery to the Paying Agent of a Bond Note certificate with respect to which such principal payment shall have become payable, provided that the Issuer shall have deposited with the Paying Agent, on or before the payment date, sufficient immediately available funds to pay the aggregate principal amount (including premium, if any) due on all Bonds or Notes so payable;
- (iii) if a Bondholder or Noteholder shall report to the Paying Agent that any check so mailed for the payment of interest or principal has been lost and that the proceeds thereof, have not been received and if the check has not been paid then, upon provision of an indemnity satisfactory to the Paying Agent and the Issuer, stop payment upon such check, and issue and deliver to such Bondholder or Noteholder a new check for like amount; provided, however, that it may, at its discretion, defer the issuance of the new check for a reasonable period of time;
- (iv) record the fact of payment and cancel Bonds or Notes surrendered to it for payment, coincident with such payment being made to the person thereto entitled; and
- (v) have no liability for interest on, or investing, any funds received by it; any unclaimed funds remaining in the possession of the Paying Agent for payment of the Bonds or Notes will be escheated in accordance with applicable law and the Paying Agent's policies and procedures.

**Section 8. Redemption Prior to Stated Maturity.** If the Bonds or Notes are subject to redemption prior to their stated maturity date(s), the Paying Agent shall be governed by the redemption provisions set forth in the Authorization or as stated in the provisions as set forth on the bond/note form. The Paying Agent shall not be required to transfer any Bond or Note, or portion thereof, that has been called for redemption. Payment of the principal amount (including premium, if any) of any Bond or Note, or portion thereof, called for redemption shall be made by check payable to the registered owner, only upon presentation of the Bond or Note, at the designated corporate trust office of the Paying Agent on or after the redemption date. Where the entire principal amount of the Bond or Note has not been called for redemption, a new Bond or Note of the same series, maturity and interest rate in the amount of the unredeemed portion will be issued to the registered holder or its assignee. Whether or not promptly submitted for redemption, interest on any Bond or Note, or portion thereof, called for redemption shall



cease to accrue on and after the redemption date provided that sufficient moneys therefore are on deposit with the Paying Agent.

**Section 9. Compensation; Indemnification.** The Issuer agrees to pay the Paying Agent fees as set forth in **Exhibit B** attached hereto and made a part hereof, and, if applicable, to reimburse Paying Agent for its out-of-pocket expenses (including without limitation attorneys' fees and expenses). The Issuer assumes full responsibility and, to the extent permitted by law, will indemnify the Paying Agent and its officers, directors, agents and employees and save it and them harmless from and against any and all actions or suits, whether groundless or otherwise, and from and against any and all losses, liabilities, costs and expenses (including attorneys' fees and expenses) arising out of the agency relationship created by this Agreement, unless such losses, liabilities, costs and expenses shall have been finally adjudicated to have resulted from the willful misconduct or negligence of the Paying Agent, and such indemnification shall survive the Paying Agent's resignation or removal for any reason, or the termination of this Agreement.

**Section 10. Instructions From the Issuer and Opinion From Counsel.** At any time the Paying Agent may apply to any duly authorized representative of the Issuer for instructions, and shall have the right, but not the obligation, to consult with counsel of choice at the reasonable expense of the Issuer and shall not be liable for action taken or omitted to be taken either in accordance with such instruction or such advice of counsel, or in accordance with any opinion of counsel to the Issuer addressed to the Paying Agent.

**Section 11. Concerning the Paying Agent.** The Paying Agent shall have only those duties as are specifically provided herein, which shall be deemed purely ministerial in nature, and shall have the right to perform any of its duties hereunder through agents, attorneys, custodians or nominees. The Paying Agent shall not be answerable for other than its negligence or willful misconduct. The Paying Agent shall have no responsibility for the form of inscription of ownership upon any Bond or Note certificate which has been made in accordance with directions of the Issuer, the Issuer's underwriter, a broker or a holder of a Bond or Note. The Paying Agent shall be protected in acting upon any paper or document believed by it to be genuine and to have been signed by the proper person or persons and shall not be held to have notice of any change of authority of any person, until receipt of written notice thereof from the Issuer. The Paying Agent shall also be protected in recognizing Bond or Note certificates which it reasonably believes to bear the proper manual or facsimile signatures on behalf of the Issuer. The Paying Agent shall have the right, but not the obligation, to consult with counsel of choice and shall not be liable for action taken or omitted to be taken by Paying Agent either in accordance with the advice of such counsel or in accordance with any opinion of counsel to the Issuer addressed and delivered to the Paying Agent. The Paying Agent shall not be under any obligation to prosecute any action or suit in respect of the agency relationship which, in its sole judgment, may involve it in expense or liability. In any action or suit the Issuer shall, as often as requested, reimburse the Paying Agent for any expense or liability growing out of such action or suit by or against the Paying Agent in its agency capacity; provided, however, that no such reimbursement shall be made for any expense or liability arising as a result of Paying Agent's negligence or willful misconduct. No provision of this Agreement shall require the Paying Agent to risk or expend its own funds.

The Paying Agent shall not be responsible or liable for any failure or delay in the performance of its obligation under this Agreement arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including, without limitation, acts of God; earthquakes; fire; flood; wars; terrorism; military disturbances; sabotage; epidemic; riots; interruptions; loss or malfunctions of utilities, computer (hardware or software) or communications services; accidents; labor disputes; acts of civil or military authority or governmental action; it being understood that Paying Agent shall use commercially reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as reasonably practicable under the circumstances.

Anything in this Agreement to the contrary notwithstanding, in no event shall the Paying Agent be liable for special, punitive, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Paying Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.



The Paying Agent shall have the right to accept and act upon instructions, including funds transfer instructions (“Instructions”) given pursuant to this Agreement and delivered using Electronic Means (“Electronic Means” means the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Paying Agent, or another method or system specified by the Paying Agent as available for use in connection with its services hereunder); provided, however, that the Issuer shall provide to the Paying Agent an incumbency certificate listing officers with the authority to provide such Instructions (“Authorized Officers”) and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the Issuer whenever a person is to be added or deleted from the listing. If the Issuer elects to give the Paying Agent Instructions using Electronic Means and the Paying Agent in its discretion elects to act upon such Instructions, the Paying Agent’s understanding of such Instructions shall be deemed controlling. The Issuer understands and agrees that the Paying Agent cannot determine the identity of the actual sender of such Instructions and that the Paying Agent shall conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Paying Agent have been sent by such Authorized Officer. The Issuer shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the Paying Agent and that the Issuer and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the Issuer. The Paying Agent shall not be liable for any losses, costs or expenses arising directly or indirectly from the Paying Agent’s reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. The Issuer agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Paying Agent, including without limitation the risk of the Paying Agent acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Paying Agent and that there may be more secure methods of transmitting Instructions than the method(s) selected by the Issuer; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Paying Agent immediately upon learning of any compromise or unauthorized use of the security procedures.

Any banking association or corporation into which the Paying Agent may be merged, converted or with which the Paying Agent may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Paying Agent shall be a party, or any banking association or corporation to which all or substantially all of the corporate trust business of the Paying Agent shall be transferred, shall succeed to all the Paying Agent’s rights, obligations and immunities hereunder without the execution or filing of any paper or any further act on the part of the parties hereto, anything herein to the contrary notwithstanding.

**Section 12. Notices.** Until changed by notice in writing, communications between the parties shall be delivered to:

If to Issuer:  
 City of Palo Alto  
 250 Hamilton Avenue  
 Palo Alto, CA 94301  
 Attn: Administrative Services Director

If to the Paying Agent:  
 U.S. Bank Trust Company National Association  
 633 West 5th Street, 24th Floor  
 Los Angeles, CA 90071  
 Attn: Corporate Trust

**Section 13. Destruction of Instruments, Records and Papers.** The Paying Agent may retain in its files records, instruments, and papers maintained by it in relation to its agency as long as the Paying



Agent shall consider that such retention is necessary. The Paying Agent shall destroy or dispose of canceled Bonds or Notes in accordance with its customary procedures, unless contrary instructions are received from the Issuer.

**Section 14. Resignation or Removal of Paying Agent.** Any time, other than on a day during the forty-five (45) day period preceding any payment date for Issuer's Bonds or Notes, the Paying Agent may resign by giving at least forty-five (45) days' prior written notice to Issuer; and the Paying Agent's agency shall be terminated and its duties shall cease upon expiration of such forty-five (45) days or such lesser period of time as shall be mutually agreeable to Paying Agent and Issuer. At any time, following at least forty-five (45) days' prior written notice (or such lesser period of time as shall be mutually agreeable to the Paying Agent and the Issuer) from the Issuer, the Paying Agent may be removed from its agency. Such removal shall become effective upon the expiration of the forty-five (45) day or agreed lesser time period, and upon payment to the Paying Agent of all amounts payable to it in connection with its agency. In such event, the Paying Agent shall deliver to the Issuer, or to the Issuer's designated representative, all Bonds or Notes and cash belonging to the Issuer and, at the Issuer's expense, shall furnish to the Issuer, or to the Issuer's designated representative, reasonably detailed information regarding the status of the Issuer's outstanding Bonds or Notes and copies of other pertinent records then in the Paying Agent's possession, reasonably requested by the Issuer.

**Section 15. Effectiveness and Term.** If the Bonds or Notes already are outstanding as of the date of the execution and delivery of this Agreement, this Agreement is effective as of the date hereof and shall continue until terminated as provided herein.

If the Bonds or Notes are to be newly issued, then this Agreement shall become effective as of the date that the Bonds or Notes are delivered to the original purchaser(s) thereof, and shall continue until terminated. If said Bonds/Notes are not delivered to original purchaser(s), this Agreement shall be null, void and of no effect.

This Agreement shall remain in effect and the agency established by the Agreement shall continue until (i) terminated by mutual agreement of Issuer and Paying Agent, (ii) the resignation or removal of Paying Agent pursuant to Section 14 hereof, or (iii) after all Bonds or Notes have been retired by payment or otherwise, or funds have been deposited for their retirement, and any remaining funds have either been returned to the Issuer or escheated in accordance with law.

**Section 16. Conflicts Between Documents.** In the event of any conflict between any provision of this Agreement and the Authorization, the terms of the Authorization shall govern.

**Section 17. Jury Trial Waiver.** Each party hereto hereby agrees not to elect a trial by jury of any issue triable of right by jury, and waives any right to trial by jury fully to the extent that any such right shall now or hereafter exist with regard to this Agreement, or any claim, counterclaim or other action arising in connection herewith. This waiver of right to trial by jury is given knowingly and voluntarily by each party, and is intended to encompass individually each instance and each issue as to which the right to a trial by jury would otherwise accrue.

**Section 18. Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of California.



**IN WITNESS WHEREOF**, the parties hereto have caused these presents to be signed by their duly authorized officers as of the date first above written.

**CITY OF PALO ALTO**

By \_\_\_\_\_  
Name: Kiely Nose  
Title: Administrative Services Director

**U.S. BANK TRUST COMPANY  
NATIONAL ASSOCIATION**

By \_\_\_\_\_  
Name: Mary Wong  
Title: Vice President



**EXHIBIT A****DESCRIPTION OF BONDS OR NOTES**

<b>Resolution Number</b>	<b>Name of Bonds</b>
	City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022A (Tax-Exempt)
	City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022B (Federally Taxable)



**EXHIBIT B****FEE SCHEDULE**

Registrar, Transfer Agent and Paying Agent  
For Fully Registered Bond / Note Issues



**Exhibit 2a****OFFICIAL NOTICE OF SALE**

\$ \_\_\_\_\_ \*

**CITY OF PALO ALTO**  
(Santa Clara County, California)

**REFUNDING GENERAL OBLIGATION BONDS**  
(ELECTION OF 2008),  
**SERIES 2022A (TAX-EXEMPT)**

NOTICE IS HEREBY GIVEN by the City of Palo Alto (the "City"), that bids will be received by a representative of the City for the purchase of \$ \_\_\_\_\_ \* principal amount of bonds of the City designated the "City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022A (Tax-Exempt)" (the "Bonds"). Bids will be received in electronic form through BiDCOMP™/Parity® ("Parity") on:

\_\_\_\_\_, 2022

starting at 8:30 a.m. and ending at 9:00 a.m. Pacific Time.

The City reserves the right to postpone or change the time or sale date upon notice delivered via Bloomberg News Service or Thomson Municipal Market Monitor (<http://www.tm3.com>).

The Bonds will be issued under the provisions of a resolution adopted by the City Council of the City on May 9, 2022 (the "Bond Resolution"), and under the laws of the State of California. The Bonds are more particularly described in the proposed form of the Bond Resolution on file with the City (which is incorporated herein by reference) and copies thereof will be furnished to the bidder upon request.

The City is proposing to sell an additional series of bonds pursuant to a separate Notice of Sale at a different time, and those bonds will be designated the City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022B (Federally Taxable). The sale of the Bonds pursuant to this Notice of Sale is completely unrelated to the sale of such other bonds.

**DESCRIPTION OF THE BONDS**

**PURPOSE:** The proceeds of the Bonds will be applied by the City for the purpose of refunding outstanding general obligation bonds of the City in order to realize debt service savings for the benefit of the taxpayers of the City.

**ISSUE; BOOK-ENTRY FORM:** The Bonds will be issued in the aggregate principal amount of \_\_\_\_\_ \* in the form of fully registered Bonds without coupons. The Bonds will be dated as of their original delivery, and will be issued in minimum denominations of \$5,000. The Bonds will be issued in a book entry only system with no physical distribution of the Bonds made to the public. The Depository Trust Company, New York, New York ("DTC"), will act as depository for the Bonds which will be immobilized in its custody. The Bonds will be registered in

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\* Preliminary, subject to change.



the name of Cede & Co., as nominee for DTC, on behalf of the participants in the DTC system and the subsequent beneficial owners of the Bonds.

**MATURITIES:** The Bonds will mature, or be subject to mandatory sinking fund redemption, on August 1 in each of the years, and in the amounts, as set forth in the following table. The final principal amount of the Bonds, and the final amount of each maturity of the Bonds, is subject to increase or reduction as described below under the heading "Adjustment of Principal Maturities". *Each bidder must specify in its bid whether, for any particular year, the Bonds will mature or, alternately, be subject to mandatory sinking fund redemption in such year.*

Maturity Date (August 1)	Principal Amount	Maturity Date (August 1)	Principal Amount
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**PAYMENT PROVISIONS:** Interest on the Bonds will be payable on February 1, 2023, and on succeeding February 1 and August 1 (the "Interest Payment Dates"), to the registered owners by check or draft of The Bank of New York Mellon Trust Company, N.A., as paying agent (the "Paying Agent") or, in the case of the owner of Bonds in an aggregate principal amount of at least \$1,000,000, at the written request of such owner by wire transfer. Principal of and premium (if any) on any Bond will be paid upon presentation and surrender thereof at the office of the Paying Agent. Principal, interest and premium (if any) on the Bonds are payable in lawful money of the United States of America.

**OPTIONAL REDEMPTION:** The Bonds maturing on or before August 1, \_\_\_\_\_, are not subject to redemption prior to their respective stated maturities. The Bonds maturing on or after August 1, \_\_\_\_\_, are subject to redemption prior to maturity, at the option of the City, in whole or in part among maturities on such basis as designated by the City and by lot within a maturity, from any available source of funds, on August 1, \_\_\_\_\_, and on any date thereafter, at a redemption price equal to 100% of the principal amount of Bonds to be redeemed together with accrued interest thereon to the date fixed for redemption, without premium.

**SINKING FUND REDEMPTION:** *Any bidder may, at its option, specify that one or more maturities of the Bonds will consist of term Bonds which are subject to mandatory sinking fund redemption in consecutive years immediately preceding the maturity thereof, as designated in the bid of such bidder.* If the bid of the Purchaser (as defined below) specifies that any maturity of Bonds will be term Bonds, such term Bonds will be subject to mandatory sinking fund redemption on August 1 in each year so designated in the bid, in the respective amounts for such years as set forth above under the heading "MATURITIES", at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest to the redemption date, without premium.

**SECURITY:** The Bonds are general obligations of the City, and the City will direct the appropriate officials of Santa Clara County to levy ad valorem taxes for the payment of the Bonds



and the interest thereon without limitation as to rate or amount for the payment of the Bonds and the interest thereon.

**TAX-EXEMPT STATUS:** In the opinion of Jones Hall, A Professional Law Corporation, bond counsel to the City ("Bond Counsel"), interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. Bidders are referred to the Preliminary Official Statement for a description of the proposed opinion of Bond Counsel. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes.

If prior to the delivery of the Bonds either (a) the interest on other obligations of the same type and character shall be declared to be taxable (either at the time of such declaration or at any future date) under any federal income tax laws, either by the terms of such laws or by ruling of a federal income tax authority or official which is followed by the Internal Revenue Service, or by decision of any federal court, or (b) any federal income tax law is adopted which will have a substantial adverse effect upon owners of the Bonds as such, the Purchaser may, at its option, prior to the tender of the Bonds, be relieved of its obligation under the contract to purchase the Bonds, and in such case the deposit accompanying its proposal will be returned.

**LEGAL OPINION:** The legal opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, approving the validity of the Bonds, will be furnished to the purchaser of the Bonds without cost. A copy of the legal opinion, certified by the official in whose office the original is filed, will be printed on each Bond at the expense of the City.

**FURTHER INFORMATION:** A copy of the Preliminary Official Statement describing the Bonds, and any other information concerning the proposed financing, will be furnished upon request to the municipal advisor to the City as follows ("Municipal Advisor"): PFM Financial Advisors LLC, 44 Montgomery Street, 3rd Floor, San Francisco, CA 94104, telephone: (415) 393-7245 (Nick Jones) or [JONESNI@pfm.com](mailto:JONESNI@pfm.com), website: [www.pfm.com](http://www.pfm.com). The Official Notice of Sale and Preliminary Official Statement are available from the Municipal Advisor.

## TERMS OF SALE

**RIGHT TO CANCEL, POSTPONE OR RESCHEDULE SALE:** The City reserves the right to cancel, postpone or reschedule the sale of the Bonds upon notice delivered via Bloomberg News Service or Thomson Municipal Market Monitor ([www.tm3.com](http://www.tm3.com)). If the sale is postponed, bids will be received at the above place at such date and hour as set forth in the notice. Failure of any bidder to receive such notice or any other form of notice of canceled, postponed or rescheduled sale will not affect the legality or validity of any sale.

**SUBMISSION OF BIDS:** Bids will be received electronically as described below, provided that such electronic bid must be received no later than the date and time set for receipt of bids. All bidders, by submitting a bid, acknowledge that they have an established industry reputation for underwriting new issuances of municipal bonds.

**ELECTRONIC BIDS:** Solely as an accommodation to bidders, the City will accept bids in electronic form solely from Ipreo, a KKR portfolio company, through its BiDCOMP Competitive Bid Calculation System and Parity Electronic Bid Submission System ("Ipreo"). For information about Ipreo, bidders may contact Ipreo at 395 Hudson Street, New York, New York 10014,



telephone: (212) 849-5023. If any provision of this Notice of Sale conflicts with information provided by Ipreo, this Notice of Sale shall control. Each bidder submitting an electronic bid understands and agrees by doing so that it is solely responsible for all arrangements with Ipreo, that the City does not encourage the use of Ipreo, and that Ipreo is not acting as an agent of the City. Instructions for submitting electronic bids must be obtained from Ipreo, and the City does not assume any responsibility for ensuring or verifying bidder compliance with Ipreo procedures. Ipreo has advised the City that bidders must subscribe to Ipreo if such bidders intend to use Ipreo to submit bids. The City shall be entitled to assume that any bid received via Ipreo has been made by a duly authorized agent of the bidder.

Neither the City, the Municipal Advisor nor Bond Counsel has any responsibility for proper functioning of the Ipreo system, for any error contained in any bid submitted electronically, or for failure of any bid to be transmitted, received or opened at the official time for receipt of bids. The official time for receipt of bids will be determined by the City at the place of bid opening, and the City will not be required to accept the time kept by Parity as the official time. The City assumes no responsibility for informing any bidder prior to the deadline for receiving bids that its bid is incomplete, or not received.

**FORM OF BID; PURCHASE PRICE:** Each proposal must be for not less than all of the Bonds hereby offered for sale.

The City will accept par, discount or premium bids for the Bonds.

**DESIGNATION OF INTEREST RATES:** Each bidder must specify the rate or rates of interest which the Bonds will bear. The maximum rate bid on any Bonds may not exceed \_\_\_\_\_% per annum. A bidder will be permitted to bid different rates of interest for each maturity of Bonds, but:

- each interest rate specified must be in a multiple of 1/20% or 1/8%;
- no Bond may bear more than one rate of interest;
- interest on each Bond will be computed from the date of original delivery to its stated maturity at the interest rate specified in the proposal, payable on the Interest Payment Dates as set forth above; and
- all Bonds maturing at any one time will bear the same rate of interest.

**DETERMINATION OF BEST BID:** The Bonds will be awarded to the responsible bidder whose bid produces the lowest true interest cost on the Bonds. The true interest cost specified in any bid will be that rate which, when used in computing the present worth of all payments of principal and interest to be paid on all Bonds from the date of original delivery (which is assumed to be \_\_\_\_\_, 2022) to their respective maturity dates or mandatory sinking fund redemption dates, produces an amount equal to the purchase price specified in such bid. For purposes of computing the true interest cost represented by any proposal, the purchase price specified in such proposal shall be equal to the par amount of the Bonds plus any premium specified in such proposal, and the true interest cost shall be calculated by the use of a semiannual interval of compounding interest based on the Interest Payment Dates for the Bonds.



If two or more bids setting forth identical interest rates and premium, if any, are received, such officer may exercise discretion and judgment in making the award and may award the Bonds on a pro rata basis in such denominations as he or she determines.

**ADJUSTMENT OF PRINCIPAL MATURITIES:** In order to achieve the financial goals of the City, the City may need to adjust the schedule of principal maturities for the Bonds based on the bids that are received. Therefore, the City reserves the right to increase or decrease the principal amount of any maturity of the Bonds (or, in the case of the term Bonds, the principal amount thereof which is subject to mandatory sinking fund redemption on August 1 in any year). The aggregate principal amount of the Bonds may be reduced as a result of such adjustment, in an amount not exceeding 10% of the amount of Bonds hereby offered for sale. Notice of such increase or decrease shall be given to the winning bidder as soon as practicable following the notification of award, as described below. The City will attempt to maintain total underwriter compensation when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined.

**RIGHT OF REJECTION:** The City reserves the right, in its discretion, to reject any and all bids and to the extent not prohibited by law to waive any irregularity or informality in any bid.

**PLACE OF DELIVERY; CANCELLATION FOR LATE DELIVERY:** It is expected that the Bonds will be delivered to DTC for the account of the winning bidder on \_\_\_\_\_, 2022. The winning bidder has the right, at the winning bidder's option, to cancel the contract of purchase if the Bonds are not tendered for delivery within 60 days from the date of the sale thereof, and in such event the winning bidder shall be entitled to the return of the deposit accompanying its bid. In such event, the successful bidder will be entitled to the return of the deposit accompanying the bid (see "-GOOD FAITH DEPOSIT").

**PROCESS OF AWARD.** The City will take final action awarding the Bonds or rejecting all bids not later than thirty (30) hours after the time for receipt of bids, unless such time period is extended by the City.

The following steps constitute the City's process for a final award of the Bonds:

(1) The City's municipal advisor, on behalf of the City, will give a verbal notice of award to the apparent winning bidder (the "Apparent Winning Bidder") to be determined as described under "**-DETERMINATION OF BEST BID**" above.

(2) The Apparent Winning Bidder shall provide within one hour of verbal notice the initial reoffering prices and confirm that it is prepared to execute the Issue Price Certificate described under "**ESTABLISHMENT OF ISSUE PRICE**" below.

(3) The Apparent Winning Bidder shall provide the Good Faith Deposit by wire transfer, as described under "**GOOD FAITH DEPOSIT.**"

(4) The City's municipal advisor will fax or email to the Apparent Winning Bidder confirmation of the final principal amortization schedule and purchase price for the Bonds, after adjustments, if any, are made, as described under "**ADJUSTMENT OF PRINCIPAL MATURITIES.**"

(5) The City will fax or email to the Apparent Winning Bidder written confirmation of the final award.



Upon completion of all the steps described above, the Apparent Winning Bidder will be deemed the Purchaser of the Bonds (the "Purchaser") and will be bound by the terms of the contract to purchase the Bonds, which contract shall consist of: (a) this Official Notice of Sale; (b) the information that is transmitted electronically by the bidder through Parity®; and (c) any adjustments to the final principal amortization schedule and purchase price made as described under "**ADJUSTMENT OF PRINCIPAL MATURITIES.**"

**GOOD FAITH DEPOSIT:** A good faith deposit in the amount of \$\_\_\_\_\_ for the Bonds (the "Good Faith Deposit") must be provided by the Apparent Winning Bidder. The Good Faith Deposit must be submitted by wire transfer (as described below). The Bonds will not be officially awarded to a bidder who has not submitted a Good Faith Deposit.

Upon the determination by the City of the Apparent Winning Bidder (as described above under "PROCESS OF AWARD"), the City's municipal advisor will request the Apparent Winning Bidder to (i) immediately wire the Good Faith Deposit to the Trustee, as described below, and (ii) provide, within ninety (90) minutes of such request, the Federal wire reference number of such Good Faith Deposit to the City's municipal advisor by email (hollenbecks@pfm.com or Jonesni@pfm.com). The wire transfer is to be made to U.S. Bank Trust Company National Association, using the following wire instructions:

Bank Name: U.S. Bank Trust Company National Association  
 ABA No.:   
 A/C No.:   
 A/C Name:   
 Attention:

In the event that the Apparent Winning Bidder does not wire the Good Faith Deposit as required, or does not provide the Federal wire reference number confirming the wire-transfer of such deposit to the municipal advisor within the time specified above, the City may reject the bid of the Apparent Winning Bidder and may award the Bonds to a responsible bidder that submitted a conforming bid that represents the next lowest true interest cost to the City.

No interest will be paid upon a Good Faith Deposit made by an Apparent Winning Bidder. Upon receipt of the Good Faith Deposit by the City, the Good Faith Deposit will immediately become the property of the City. The Good Faith Deposit will be held and invested for the exclusive benefit of the City. The Good Faith Deposit, without interest thereon, will be credited against the purchase price of the Bonds purchased by the Purchaser at the time of delivery thereof.

If the purchase price is not paid in full upon tender of the Bonds, the City shall retain the Good Faith Deposit and the Purchaser will have no right in or to the Bonds or to the recovery of its Good Faith Deposit, or to any allowance or credit by reason of such deposit, except pursuant to a right of cancellation. See "**PLACE OF DELIVERY; CANCELLATION FOR LATE DELIVERY.**" In the event of nonpayment of the purchase price for the Bonds by the Purchaser, the City reserves any and all rights granted by law to recover the full purchase price of the Bonds and, in addition, any damages suffered by the City.

**PAYMENT OF PURCHASE PRICE:** The Purchaser, will be required to pay the purchase price of the Bonds (less the amount of the Good Faith Deposit described above) in funds that are



immediately available to the City. Such payment shall be made on the date of original delivery of the Bonds to DTC.

**STATEMENT OF TRUE INTEREST COST:** Each bidder is requested, but not required, to state in its proposal the percentage true interest cost represented by its proposal, determined as described above, which will be considered as informative only and not binding on either the bidder or the City.

**ESTABLISHMENT OF ISSUE PRICE:** (a) The Purchaser shall assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at closing an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the public of the Bonds, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit 1, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Purchaser, the City and Bond Counsel. All actions to be taken by the City under this Notice of Sale to establish the issue price of the Bonds may be taken on behalf of the City by the City's municipal advisor identified herein and any notice or report to be provided to the City may be provided to the City's municipal advisor.

(b) The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

(1) the City shall disseminate this Notice of Sale to potential underwriters in a manner that is reasonably designed to reach potential underwriters;

(2) all bidders shall have an equal opportunity to bid;

(3) the City may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and

(4) the City anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Notice of Sale.

Any bid submitted pursuant to this Notice of Sale shall be considered a firm offer for the purchase of the Bonds, as specified in the bid. **By submitting a bid for the Bonds, each bidder certifies that it has an established industry reputation for underwriting new issuances of municipal bonds.** The City will not accept bids from firms without an established industry reputation for underwriting new issuances of municipal bonds.

(c) In the event the City receives less than three bids that conform to the parameters contained herein such that the competitive sale requirements are not satisfied, the City intends to treat the initial offering price of each maturity of the bonds set forth in the bid submitted by the winning bidder (the "initial offering price") as the issue price of that maturity (the "hold-the-offering-price rule"). Consequently, each bidder should assume for purposes of making its bid that for each maturity of the Bonds, the City will treat the initial offering prices as of the date that the Bonds are awarded by the City to the successful bidder ("sale date") as the issue price of the Bonds. The City will advise the winning bidder within one hour of receipt of bids if the hold-the-offering-price rule will apply. In the event that the competitive sale requirements are not satisfied and issue price is established pursuant to the hold-the-offering-price rule, the issue price



certificate shall be modified as necessary in the reasonable judgment of Bond Counsel and the City.

(d) By submitting a bid, the Purchaser shall, on behalf of the underwriters participating in the purchase of the Bonds, (i) confirm that the underwriters have offered or will offer each maturity of the Bonds to the public on or before the sale date at the initial offering price set forth in the bid submitted by the winning bidder, and (ii) agree that the underwriters will neither offer nor sell any maturity of the Bonds to any person at a price that is higher than the initial offering price for such maturity during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price for such maturity.

The Purchaser shall promptly advise the City when the underwriters have sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price if that occurs prior to the close of the fifth (5th) business day after the sale date.

(e) The City acknowledges that, in making the representation set forth above, the Purchaser will rely on (i) the agreement of each underwriter to comply with the hold-the-offering-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

(f) By submitting a bid, each bidder confirms that:

(1) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to

(A) report the prices at which it sells to the public the Bonds of each maturity allotted to it until it is notified by the successful bidder that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public and



(B) comply with the hold-the-offering-price rule, if and for so long as directed by the successful bidder and in the related pricing wires, and

(2) any agreement among underwriters relating to the sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to

(A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the successful bidder or such underwriter that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public and

(B) comply with the hold-the-offering-price rule, if and for so long as directed by the successful bidder or such underwriter and as set forth in the related pricing wires.

Sales of any Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Official Notice of Sale.

(g) For purposes of this Official Notice of Sale:

(1) "public" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an underwriter or a related party,

(2) "underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public),

(3) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

In addition, the City reserves the right to cancel the public sale of the Bonds if the City receives fewer than three bids that conform to the parameters contained herein such that the competitive sale requirements are not satisfied.



**NO LITIGATION:** There is no litigation pending concerning the validity of the Bonds, the corporate existence of the City or the entitlement of the officers thereof to their respective offices, and the purchaser will be furnished a no-litigation certificate certifying to the foregoing as of and at the delivery of the Bonds.

**CUSIP NUMBERS:** It is anticipated that CUSIP numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bonds nor any error with respect thereto will constitute cause for a failure or refusal by the purchaser to accept delivery of and pay for the Bonds in accordance with the terms hereof. All expenses in relation to the printing of CUSIP numbers on the Bonds will be paid for by the City, except that the CUSIP Service Bureau charge for the assignment of said numbers will be the responsibility of and shall be paid for by the purchaser.

**CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION FEES:** All fees payable to the California Debt and Investment Advisory Commission in connection with the issuance of the Bonds are the sole responsibility of the purchaser of the Bonds.

**OFFICIAL STATEMENT:** The City has approved a preliminary Official Statement relating to the Bonds. Copies of such preliminary Official Statement will be distributed to any bidder, upon request, prior to the sale in a form "deemed final" by the City for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule"). Within seven business days from the sale date, the City will deliver to the purchaser copies of the final Official Statement, executed by an authorized representative of the City and the City and dated the date of delivery thereof to the purchaser, in sufficient number to allow the purchaser to comply with paragraph (b)(4) of the Rule and to satisfy the Municipal Securities Rulemaking Board (the "MSRB") Rule G-32 or any other rules adopted by the MSRB, which shall include information permitted to be omitted by paragraph (b)(1) of the Rule and such other amendments or supplements as are been approved by the City (the "Final Official Statement"). The purchaser agrees that it will not confirm the sale of any Bonds unless the confirmation of sale is accompanied or preceded by the delivery of a copy of the Final Official Statement. Upon request, the City will furnish to the winning bidder, at no charge, not in excess of 20 printed copies of the Official Statement for use in connection with any resale of the Bonds.

**CERTIFICATE REGARDING OFFICIAL STATEMENT:** A responsible officer of the City will certify to the original purchaser of the Bonds, as a condition of closing, that based on such officer's participation in the preparation of the Official Statement, nothing has come to his or her attention to lead him or her to believe that the Official Statement (except for certain financial statements, statistical data and other information) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

**CONTINUING DISCLOSURE.** In order to assist bidders in complying with S.E.C. Rule 15c2-12(b)(5), the City will execute and deliver a Continuing Disclosure Certificate, under which the City undertakes to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of this undertaking is set forth in the preliminary Official Statement and will also be set forth in the final Official Statement. Such Continuing Disclosure Certificate will be a document required to be delivered at closing by the City, and the failure by the City to deliver such document in form and substance acceptable to Bond Counsel and the winning bidder will relieve the winning bidder of its obligation to purchase the Bonds.



**ACKNOWLEDGEMENT OF NO FIDUCIARY DUTY.** The City acknowledges and agrees that (i) the purchase and sale of the Bonds is an arm's-length commercial transaction between the City and the underwriter, (ii) in connection with such transaction, the underwriter is acting solely as a principal and not as an advisor, (including, without limitation, a Municipal Advisor (as such term is defined in Section 975(e) of the Dodd-Frank Wall Street Reform and Consumer Protection Act)), agent or a fiduciary of the City, (iii) the underwriter has not assumed (individually or collectively) a fiduciary responsibility in favor of the City with respect to the offering of the Bonds or the process leading thereto (whether or not the underwriter, or any affiliate of an underwriter, has advised or is currently advising the City on other matters) or any other obligation to the City except as described in this Notice of Sale, (iv) the underwriter has financial and other interests that differ from those of the City and (v) the City has consulted with its own legal and municipal advisors to the extent it deemed appropriate in connection with the offering of the Bonds.

GIVEN by order of the City Council of the City of Palo Alto by a resolution adopted on May 9, 2022.



**EXHIBIT 1**  
**Issue Price Certificate**

\$ \_\_\_\_\_ \*

**CITY OF PALO ALTO**  
**REFUNDING GENERAL OBLIGATION BONDS (ELECTION OF 2008),**  
**SERIES 2022A (TAX-EXEMPT)**

The undersigned, on behalf of [NAME OF UNDERWRITER] (“Underwriter”), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the “Bonds”).

**1. Reasonably Expected Initial Offering Price.**

(a) As of the Sale Date, the reasonably expected initial offering prices of the Bonds to the Public by Underwriter are the prices listed in Schedule A (the “Expected Offering Prices”). The Expected Offering Prices are the prices for the Maturities of the Bonds used by the Underwriter in formulating its bid to purchase the Bonds. Attached as Schedule B is a true and correct copy of the bid provided by Underwriter to purchase the Bonds.

(b) Underwriter was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by Underwriter constituted a firm offer to purchase the Bonds.

**2. Defined Terms.**

(a) *Issuer* means the City of Palo Alto.

(a) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is \_\_\_\_\_, 2022.

(d) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).



The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents Underwriter's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Certificate of Arbitrage and with respect to compliance with the federal income tax rules affecting the Bonds, and by Jones Hall, A Professional Law Corporation in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

**[UNDERWRITER]**

By: \_\_\_\_\_

Name: \_\_\_\_\_

**Dated: [ISSUE DATE]**



# **SCHEDULE A**

## **EXPECTED OFFERING PRICES**

Maturity Date <u>(August 1)</u>	Principal <u>Amount</u>	Interest <u>Rate</u>	Reoffering <u>Price</u> *
	\$	%	%

\*

Stated as a percentage of par.



**SCHEDULE B**  
**COPY OF UNDERWRITER'S BID**  
(attached)



## OFFICIAL NOTICE OF SALE

\$ \_\_\_\_\_ \*

**CITY OF PALO ALTO**  
(Santa Clara County, California)

**REFUNDING GENERAL OBLIGATION BONDS**  
**(ELECTION OF 2008),**  
**SERIES 2022B (FEDERALLY TAXABLE)**

NOTICE IS HEREBY GIVEN by the City of Palo Alto (the "City"), that bids will be received by a representative of the City for the purchase of \$ \_\_\_\_\_ \* principal amount of bonds of the City designated the "City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022B (Federally Taxable)" (the "Bonds"). Bids will be received in electronic form through BiDCOMP™/Parity® ("Parity") on:

\_\_\_\_\_, 2022

starting at 9:30 a.m. and ending at 10:00 a.m. Pacific Time.

The City reserves the right to postpone or change the time or sale date upon notice delivered via Bloomberg News Service or Thomson Municipal Market Monitor (<http://www.tm3.com>).

The Bonds will be issued under the provisions of a resolution adopted by the City Council of the City on May 9, 2022 (the "Bond Resolution"), and under the laws of the State of California. The Bonds are more particularly described in the proposed form of the Bond Resolution on file with the City (which is incorporated herein by reference) and copies thereof will be furnished to the bidder upon request.

The City is proposing to sell an additional series of bonds pursuant to a separate Notice of Sale at a different time, and those bonds will be designated the City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022A (Tax-Exempt). The sale of the Bonds pursuant to this Notice of Sale is completely unrelated to the sale of such other bonds.

## DESCRIPTION OF THE BONDS

**PURPOSE:** The proceeds of the Bonds will be applied by the City for the purpose of refunding outstanding general obligation bonds of the City in order to realize debt service savings for the benefit of the taxpayers of the City.

**ISSUE; BOOK-ENTRY FORM:** The Bonds will be issued in the aggregate principal amount of \_\_\_\_\_ \* in the form of fully registered Bonds without coupons. The Bonds will be dated as of their original delivery, and will be issued in minimum denominations of \$5,000. The Bonds will be issued in a book entry only system with no physical distribution of the Bonds made to the public. The Depository Trust Company, New York, New York ("DTC"), will act as depository for the Bonds which will be immobilized in its custody. The Bonds will be registered in

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\* Preliminary, subject to change.



the name of Cede & Co., as nominee for DTC, on behalf of the participants in the DTC system and the subsequent beneficial owners of the Bonds.

**MATURITIES:** The Bonds will mature, or be subject to mandatory sinking fund redemption, on August 1 in each of the years, and in the amounts, as set forth in the following table. The final principal amount of the Bonds, and the final amount of each maturity of the Bonds, is subject to increase or reduction as described below under the heading "Adjustment of Principal Maturities". *Each bidder must specify in its bid whether, for any particular year, the Bonds will mature or, alternately, be subject to mandatory sinking fund redemption in such year.*

Maturity Date (August 1)	Principal Amount	Maturity Date (August 1)	Principal Amount
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**PAYMENT PROVISIONS:** Interest on the Bonds will be payable on February 1, 2023, and on succeeding February 1 and August 1 (the "Interest Payment Dates"), to the registered owners by check or draft of The Bank of New York Mellon Trust Company, N.A., as paying agent (the "Paying Agent") or, in the case of the owner of Bonds in an aggregate principal amount of at least \$1,000,000, at the written request of such owner by wire transfer. Principal of and premium (if any) on any Bond will be paid upon presentation and surrender thereof at the office of the Paying Agent. Principal, interest and premium (if any) on the Bonds are payable in lawful money of the United States of America.

**OPTIONAL REDEMPTION:** The Bonds maturing on or before August 1, \_\_\_\_\_, are not subject to redemption prior to their respective stated maturities. The Bonds maturing on or after August 1, \_\_\_\_\_, are subject to redemption prior to maturity, at the option of the City, in whole or in part among maturities on such basis as designated by the City and by lot within a maturity, from any available source of funds, on August 1, \_\_\_\_\_, and on any date thereafter, at a redemption price equal to 100% of the principal amount of Bonds to be redeemed together with accrued interest thereon to the date fixed for redemption, without premium.

**SINKING FUND REDEMPTION:** *Any bidder may, at its option, specify that one or more maturities of the Bonds will consist of term Bonds which are subject to mandatory sinking fund redemption in consecutive years immediately preceding the maturity thereof, as designated in the bid of such bidder.* If the bid of the Purchaser (as defined below) specifies that any maturity of Bonds will be term Bonds, such term Bonds will be subject to mandatory sinking fund redemption on August 1 in each year so designated in the bid, in the respective amounts for such years as set forth above under the heading "MATURITIES", at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest to the redemption date, without premium.

**SECURITY:** The Bonds are general obligations of the City, and the City will direct the appropriate officials of Santa Clara County to levy ad valorem taxes for the payment of the Bonds



and the interest thereon without limitation as to rate or amount for the payment of the Bonds and the interest thereon.

**FEDERALLY TAXABLE STATUS:** In the opinion of Jones Hall, A Professional Law Corporation, bond counsel to the City ("Bond Counsel"), interest on the Bonds is not intended to be excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. Bidders are referred to the Preliminary Official Statement for a description of the proposed opinion of Bond Counsel.

**LEGAL OPINION:** The legal opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, approving the validity of the Bonds, will be furnished to the purchaser of the Bonds without cost. A copy of the legal opinion, certified by the official in whose office the original is filed, will be printed on each Bond at the expense of the City.

**FURTHER INFORMATION:** A copy of the Preliminary Official Statement describing the Bonds, and any other information concerning the proposed financing, will be furnished upon request to the municipal advisor to the City as follows ("Municipal Advisor"): PFM Financial Advisors LLC, 44 Montgomery Street, 3rd Floor, San Francisco, CA 94104, telephone: (415) 393-7245 (Nick Jones) or [JONESNI@pfm.com](mailto:JONESNI@pfm.com), website: [www.pfm.com](http://www.pfm.com). The Official Notice of Sale and Preliminary Official Statement are available from the Municipal Advisor.

## TERMS OF SALE

**RIGHT TO CANCEL, POSTPONE OR RESCHEDULE SALE:** The City reserves the right to cancel, postpone or reschedule the sale of the Bonds upon notice delivered via Bloomberg News Service or Thomson Municipal Market Monitor ([www.tm3.com](http://www.tm3.com)). If the sale is postponed, bids will be received at the above place at such date and hour as set forth in the notice. Failure of any bidder to receive such notice or any other form of notice of canceled, postponed or rescheduled sale will not affect the legality or validity of any sale.

**SUBMISSION OF BIDS:** Bids will be received electronically as described below, provided that such electronic bid must be received no later than the date and time set for receipt of bids. All bidders, by submitting a bid, acknowledge that they have an established industry reputation for underwriting new issuances of municipal bonds.

**ELECTRONIC BIDS:** Solely as an accommodation to bidders, the City will accept bids in electronic form solely from Ipreo, a KKR portfolio company, through its BiDCOMP Competitive Bid Calculation System and Parity Electronic Bid Submission System ("Ipreo"). For information about Ipreo, bidders may contact Ipreo at 395 Hudson Street, New York, New York 10014, telephone: (212) 849-5023. If any provision of this Notice of Sale conflicts with information provided by Ipreo, this Notice of Sale shall control. Each bidder submitting an electronic bid understands and agrees by doing so that it is solely responsible for all arrangements with Ipreo, that the City does not encourage the use of Ipreo, and that Ipreo is not acting as an agent of the City. Instructions for submitting electronic bids must be obtained from Ipreo, and the City does not assume any responsibility for ensuring or verifying bidder compliance with Ipreo procedures. Ipreo has advised the City that bidders must subscribe to Ipreo if such bidders intend to use Ipreo to submit bids. The City shall be entitled to assume that any bid received via Ipreo has been made by a duly authorized agent of the bidder.



Neither the City, the Municipal Advisor nor Bond Counsel has any responsibility for proper functioning of the Ipreo system, for any error contained in any bid submitted electronically, or for failure of any bid to be transmitted, received or opened at the official time for receipt of bids. The official time for receipt of bids will be determined by the City at the place of bid opening, and the City will not be required to accept the time kept by Parity as the official time. The City assumes no responsibility for informing any bidder prior to the deadline for receiving bids that its bid is incomplete, or not received.

**FORM OF BID; PURCHASE PRICE:** Each proposal must be for not less than all of the Bonds hereby offered for sale.

The City will accept par, discount or premium bids for the Bonds.

**DESIGNATION OF INTEREST RATES:** Each bidder must specify the rate or rates of interest which the Bonds will bear. The maximum rate bid on any Bonds may not exceed \_\_\_\_\_% per annum. A bidder will be permitted to bid different rates of interest for each maturity of Bonds, but:

- each interest rate specified must be in a multiple of 1/20% or 1/8%;
- no Bond may bear more than one rate of interest;
- interest on each Bond will be computed from the date of original delivery to its stated maturity at the interest rate specified in the proposal, payable on the Interest Payment Dates as set forth above; and
- all Bonds maturing at any one time will bear the same rate of interest.

**DETERMINATION OF BEST BID:** The Bonds will be awarded to the responsible bidder whose bid produces the lowest true interest cost on the Bonds. The true interest cost specified in any bid will be that rate which, when used in computing the present worth of all payments of principal and interest to be paid on all Bonds from the date of original delivery (which is assumed to be \_\_\_\_\_, 2022) to their respective maturity dates or mandatory sinking fund redemption dates, produces an amount equal to the purchase price specified in such bid. For purposes of computing the true interest cost represented by any proposal, the purchase price specified in such proposal shall be equal to the par amount of the Bonds plus any premium specified in such proposal, and the true interest cost shall be calculated by the use of a semiannual interval of compounding interest based on the Interest Payment Dates for the Bonds.

If two or more bids setting forth identical interest rates and premium, if any, are received, such officer may exercise discretion and judgment in making the award and may award the Bonds on a pro rata basis in such denominations as he or she determines.

**ADJUSTMENT OF PRINCIPAL MATURITIES:** In order to achieve the financial goals of the City, the City may need to adjust the schedule of principal maturities for the Bonds based on the bids that are received. Therefore, the City reserves the right to increase or decrease the principal amount of any maturity of the Bonds (or, in the case of the term Bonds, the principal amount thereof which is subject to mandatory sinking fund redemption on August 1 in any year). The aggregate principal amount of the Bonds may be reduced as a result of such adjustment, in an amount not exceeding 10% of the amount of Bonds hereby offered for sale. Notice of such increase or decrease shall be given to the winning bidder as soon as practicable following the



notification of award, as described below. The City will attempt to maintain total underwriter compensation when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined.

**RIGHT OF REJECTION:** The City reserves the right, in its discretion, to reject any and all bids and to the extent not prohibited by law to waive any irregularity or informality in any bid.

**PLACE OF DELIVERY; CANCELLATION FOR LATE DELIVERY:** It is expected that the Bonds will be delivered to DTC for the account of the winning bidder on \_\_\_\_\_, 2022. The winning bidder has the right, at the winning bidder's option, to cancel the contract of purchase if the Bonds are not tendered for delivery within 60 days from the date of the sale thereof, and in such event the winning bidder shall be entitled to the return of the deposit accompanying its bid. In such event, the successful bidder will be entitled to the return of the deposit accompanying the bid (see "-GOOD FAITH DEPOSIT").

**PROCESS OF AWARD.** The City will take final action awarding the Bonds or rejecting all bids not later than thirty (30) hours after the time for receipt of bids, unless such time period is extended by the City.

The following steps constitute the City's process for a final award of the Bonds:

- (1) The City's municipal advisor, on behalf of the City, will give a verbal notice of award to the apparent winning bidder (the "Apparent Winning Bidder") to be determined as described under "**-DETERMINATION OF BEST BID**" above.
- (2) The Apparent Winning Bidder shall provide the Good Faith Deposit by wire transfer, as described under "**GOOD FAITH DEPOSIT.**"
- (3) The City's municipal advisor will fax or email to the Apparent Winning Bidder confirmation of the final principal amortization schedule and purchase price for the Bonds, after adjustments, if any, are made, as described under "**ADJUSTMENT OF PRINCIPAL MATURITIES.**"
- (4) The City will fax or email to the Apparent Winning Bidder written confirmation of the final award.

Upon completion of all the steps described above, the Apparent Winning Bidder will be deemed the Purchaser of the Bonds (the "Purchaser") and will be bound by the terms of the contract to purchase the Bonds, which contract shall consist of: (a) this Official Notice of Sale; (b) the information that is transmitted electronically by the bidder through Parity®; and (c) any adjustments to the final principal amortization schedule and purchase price made as described under "**ADJUSTMENT OF PRINCIPAL MATURITIES.**"

**GOOD FAITH DEPOSIT:** A good faith deposit in the amount of \$\_\_\_\_\_ for the Bonds (the "Good Faith Deposit") must be provided by the Apparent Winning Bidder. The Good Faith Deposit must be submitted by wire transfer (as described below). The Bonds will not be officially awarded to a bidder who has not submitted a Good Faith Deposit.

Upon the determination by the City of the Apparent Winning Bidder (as described above under "PROCESS OF AWARD"), the City's municipal advisor will request the Apparent Winning Bidder to (i) immediately wire the Good Faith Deposit to the Trustee, as described below, and (ii)



provide, within ninety (90) minutes of such request, the Federal wire reference number of such Good Faith Deposit to the City's municipal advisor by email (hollenbecks@pfm.com or Jonesni@pfm.com). The wire transfer is to be made to U.S. Bank Trust Company National Association, using the following wire instructions:

Bank Name: U.S. Bank Trust Company National Association  
 ABA No.:   
 A/C No.:   
 A/C Name:   
 Attention:

In the event that the Apparent Winning Bidder does not wire the Good Faith Deposit as required, or does not provide the Federal wire reference number confirming the wire-transfer of such deposit to the municipal advisor within the time specified above, the City may reject the bid of the Apparent Winning Bidder and may award the Bonds to a responsible bidder that submitted a conforming bid that represents the next lowest true interest cost to the City.

No interest will be paid upon a Good Faith Deposit made by an Apparent Winning Bidder. Upon receipt of the Good Faith Deposit by the City, the Good Faith Deposit will immediately become the property of the City. The Good Faith Deposit will be held and invested for the exclusive benefit of the City. The Good Faith Deposit, without interest thereon, will be credited against the purchase price of the Bonds purchased by the Purchaser at the time of delivery thereof.

If the purchase price is not paid in full upon tender of the Bonds, the City shall retain the Good Faith Deposit and the Purchaser will have no right in or to the Bonds or to the recovery of its Good Faith Deposit, or to any allowance or credit by reason of such deposit, except pursuant to a right of cancellation. See "**PLACE OF DELIVERY; CANCELLATION FOR LATE DELIVERY.**" In the event of nonpayment of the purchase price for the Bonds by the Purchaser, the City reserves any and all rights granted by law to recover the full purchase price of the Bonds and, in addition, any damages suffered by the City.

**PAYMENT OF PURCHASE PRICE:** The Purchaser will be required to pay the purchase price of the Bonds (less the amount of the Good Faith Deposit described above) in funds that are immediately available to the City. Such payment shall be made on the date of original delivery of the Bonds to DTC.

**STATEMENT OF TRUE INTEREST COST:** Each bidder is requested, but not required, to state in its proposal the percentage true interest cost represented by its proposal, determined as described above, which will be considered as informative only and not binding on either the bidder or the City.

**NO LITIGATION:** There is no litigation pending concerning the validity of the Bonds, the corporate existence of the City or the entitlement of the officers thereof to their respective offices, and the purchaser will be furnished a no-litigation certificate certifying to the foregoing as of and at the delivery of the Bonds.

**CUSIP NUMBERS:** It is anticipated that CUSIP numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bonds nor any error with respect thereto will constitute cause for a failure or refusal by the purchaser to accept delivery of and pay for the Bonds in accordance with the terms hereof. All expenses in relation to the printing of CUSIP



numbers on the Bonds will be paid for by the City, except that the CUSIP Service Bureau charge for the assignment of said numbers will be the responsibility of and shall be paid for by the purchaser.

**CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION FEES:** All fees payable to the California Debt and Investment Advisory Commission in connection with the issuance of the Bonds are the sole responsibility of the purchaser of the Bonds.

**OFFICIAL STATEMENT:** The City has approved a preliminary Official Statement relating to the Bonds. Copies of such preliminary Official Statement will be distributed to any bidder, upon request, prior to the sale in a form “deemed final” by the City for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934 (the “Rule”). Within seven business days from the sale date, the City will deliver to the purchaser copies of the final Official Statement, executed by an authorized representative of the City and the City and dated the date of delivery thereof to the purchaser, in sufficient number to allow the purchaser to comply with paragraph (b)(4) of the Rule and to satisfy the Municipal Securities Rulemaking Board (the “MSRB”) Rule G-32 or any other rules adopted by the MSRB, which shall include information permitted to be omitted by paragraph (b)(1) of the Rule and such other amendments or supplements as are been approved by the City (the “Final Official Statement”). The purchaser agrees that it will not confirm the sale of any Bonds unless the confirmation of sale is accompanied or preceded by the delivery of a copy of the Final Official Statement. Upon request, the City will furnish to the winning bidder, at no charge, not in excess of 20 printed copies of the Official Statement for use in connection with any resale of the Bonds.

**CERTIFICATE REGARDING OFFICIAL STATEMENT:** A responsible officer of the City will certify to the original purchaser of the Bonds, as a condition of closing, that based on such officer's participation in the preparation of the Official Statement, nothing has come to his or her attention to lead him or her to believe that the Official Statement (except for certain financial statements, statistical data and other information) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

**CONTINUING DISCLOSURE.** In order to assist bidders in complying with S.E.C. Rule 15c2-12(b)(5), the City will execute and deliver a Continuing Disclosure Certificate, under which the City undertakes to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of this undertaking is set forth in the preliminary Official Statement and will also be set forth in the final Official Statement. Such Continuing Disclosure Certificate will be a document required to be delivered at closing by the City, and the failure by the City to deliver such document in form and substance acceptable to Bond Counsel and the winning bidder will relieve the winning bidder of its obligation to purchase the Bonds.

**ACKNOWLEDGEMENT OF NO FIDUCIARY DUTY.** The City acknowledges and agrees that (i) the purchase and sale of the Bonds is an arm's-length commercial transaction between the City and the underwriter, (ii) in connection with such transaction, the underwriter is acting solely as a principal and not as an advisor, (including, without limitation, a Municipal Advisor (as such term is defined in Section 975(e) of the Dodd-Frank Wall Street Reform and Consumer Protection Act)), agent or a fiduciary of the City, (iii) the underwriter has not assumed (individually or collectively) a fiduciary responsibility in favor of the City with respect to the offering of the Bonds or the process leading thereto (whether or not the underwriter, or any affiliate of an underwriter, has advised or is currently advising the City on other matters) or any other obligation to the City except as described in this Notice of Sale, (iv) the underwriter has financial and other interests



that differ from those of the City and (v) the City has consulted with its own legal and municipal advisors to the extent it deemed appropriate in connection with the offering of the Bonds.

GIVEN by order of the City Council of the City of Palo Alto by a resolution adopted on May 9, 2022.



## PRELIMINARY OFFICIAL STATEMENT DATED MAY 5, 2022

**TWO NEW ISSUES—FULL BOOK-ENTRY****RATING:**

Standard &amp; Poor's: "\_\_\_\_"

See "RATING" herein.

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2022A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. *Interest on the 2022B Bonds is not excludable from gross income of the owners thereof for federal income tax purposes.* In the further opinion of Bond Counsel, interest on the 2022 Bonds is exempt from California personal income taxes. See "TAX MATTERS."



\$ \_\_\_\_\_ \*

**CITY OF PALO ALTO**  
(Santa Clara County, California)  
**Refunding General Obligation**  
**Bonds (Election of 2008),**  
**Series 2022A**  
**(Tax-Exempt)**

\$ \_\_\_\_\_ \*

**CITY OF PALO ALTO**  
(Santa Clara County, California)  
**Refunding General Obligation**  
**Bonds (Election of 2008),**  
**Series 2022B**  
**(Federally Taxable)**

**Dated: Date of Delivery****Due: August 1, as shown on inside cover**

**Authority for Issuance.** The City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022A (Tax-Exempt) (the "2022A Bonds"), and the City of Palo Alto Refunding General Obligation Refunding Bonds (Election of 2008), Series 2022B (Federally Taxable) (the "2022B Bonds" and, with the 2022A Bonds, the "2022 Bonds") are being issued by the City of Palo Alto, California (the "City") under provisions of the California Government Code and under a Resolution adopted by the City Council of the City (the "City Council") on April 18, 2022 (the "Bond Resolution"). See "THE 2022 BONDS—Authority for Issuance" herein

**Purpose.** The 2022A Bonds are being issued to refund, (a) on a current basis, the City's outstanding City of Palo Alto General Obligation Bonds, Election of 2008, Series 2010A (the "2010 Bonds"), and (b) on an advance basis, the callable portion of the City's outstanding City of Palo Alto General Obligation Bonds, Election of 2008, Series 2013A (the "2013 Bonds" and, with the 2010 Bonds, the "Prior Bonds"). The Prior Bonds were issued to finance projects approved by the voters of the City in 2008. See "REFUNDING PLAN" herein.

**Security.** The 2022 Bonds are general obligations of the City, and the City Council of the City has the power to direct Santa Clara County (the "County") to levy *ad valorem* taxes upon all property within the City subject to taxation without limitation of rate or amount, for the payment of the 2022 Bonds and the interest thereon. Under the Bond Resolution, the City directs the County to levy on all the taxable property in the City, in addition to all other taxes, a continuing direct and *ad valorem* tax annually during the period the 2022 Bonds are outstanding in an amount sufficient to pay the principal of and interest on the 2022 Bonds when due, without limitation of rate or amount (except certain personal property which is taxable at limited rates). See "SECURITY FOR THE 2022 BONDS" herein.

**Book-Entry Only.** The 2022 Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). The 2022 Bonds are issuable as fully registered securities in denominations of \$5,000 or any integral multiple of \$5,000. Purchasers of the 2022 Bonds (the "Beneficial Owners") will not receive physical certificates representing their interest in the 2022 Bonds. See "THE 2022 BONDS" herein and APPENDIX F—DTC AND THE BOOK-ENTRY ONLY SYSTEM.

**Payments.** Interest on the 2022 Bonds accrues from the date of delivery and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2022. Payments of principal and interest on the 2022 Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., as paying agent, to DTC for subsequent disbursement to DTC Participants, which will remit such payments to the Beneficial Owners of the 2022 Bonds. See "THE 2022 BONDS—Description of the 2022 Bonds."

**Redemption.** The 2022 Bonds are subject to optional and sinking fund redemption prior to maturity. See "THE 2022 BONDS—Redemption" herein.

**Municipal Advisor.** Public Financial Management, San Francisco, California, serving as municipal advisor to the City, has structured this issue.

**MATURITY SCHEDULE**  
(See inside cover)

Bids for the purchase of the 2022A Bonds will be received by the City on Tuesday, May 17, 2022, electronically only, through the I-Deal LLC BiDCOMP/PARITY® system, until 8:30 A.M., Pacific Daylight time. The 2022A Bonds will be sold pursuant to the terms of sale set forth in the Official Notice of Sale for the 2022A Bonds, dated May 10, 2022.

Bids for the purchase of the 2022B Bonds will be received by the City on Tuesday, May 17, 2022, electronically only, through the I-Deal LLC BiDCOMP/PARITY® system, until 9:30 A.M., Pacific Daylight time. The 2022B Bonds will be sold pursuant to the terms of sale set forth in the Official Notice of Sale for the 2022B Bonds, dated May 10, 2022.

**Cover Page.** This cover page contains certain information for general reference only. It is not a summary of all the provisions of the 2022 Bonds. Prospective investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The 2022 Bonds are offered when, as and if issued and received by the purchasers thereof, and subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon for the City by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel. Certain legal matters will be passed upon for the City by the City Attorney. It is anticipated that the 2022 Bonds will be delivered in book-entry form through the facilities of DTC on or about June 16, 2022.

The date of this Official Statement is \_\_\_\_\_, 2022.

\*Preliminary, subject to change.



\$ \_\_\_\_\_ \*

**CITY OF PALO ALTO**  
(Santa Clara County, California)  
**Refunding General Obligation Bonds**  
**(Election of 2008), Series 2022A**  
**(Tax-Exempt)**

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND PRICES**

CUSIP† Prefix _____					
Maturity (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP† Suffix

\$ \_\_\_\_\_ \*

**CITY OF PALO ALTO**  
(Santa Clara County, California)  
**Refunding General Obligation Bonds**  
**(Election of 2008), Series 2022B**  
**(Federally Taxable)**

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND PRICES**

CUSIP† Prefix _____					
Maturity (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP† Suffix

\*Preliminary, subject to change.

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*For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"), this Preliminary Official Statement constitutes an "official statement" of the City with respect to the 2022 Bonds that has been deemed "final" by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.*

*Use of Official Statement.* This Official Statement is submitted in connection with the sale of the 2022 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any bond owner and the City or the purchasers indicated in this Official Statement.

This Official Statement should be considered in its entirety. Where statutes, ordinances, reports or other documents are referenced in this Official statement, reference should be made to those documents and those sources for complete information regarding the subject matter.

*No Offering Except by This Official Statement.* No dealer, broker, salesperson or other person has been authorized by the City or the Purchasers to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the City or the Purchasers.

*No Unlawful Offers or Solicitations.* This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the 2022 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

*Information in Official Statement.* Certain of the information set forth in this Official Statement has been furnished by sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

*Document Summaries.* All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

*No Securities Laws Registration.* The 2022 Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The 2022 Bonds have not been registered or qualified under the securities laws of any state.

*Estimates and Projections.* When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

IN CONNECTION WITH THIS OFFERING, THE PURCHASERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2022 BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE PURCHASERS MAY OFFER AND SELL THE 2022 BONDS TO CERTAIN SECURITIES DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE PURCHASERS.

*Effective Date.* This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the 2022 Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the City, the County, the other parties described in this Official Statement, or the condition of the property within the City since the date of this Official Statement.

*Website.* The City maintains a website. Unless specifically indicated otherwise, the information presented on such website is not incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2022 Bonds.



## CITY OF PALO ALTO LOCATION MAP





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**CITY OF PALO ALTO**  
**250 Hamilton Avenue**  
**Palo Alto, California 94301**  
**<http://www.cityofpaloalto.org>**

**CITY COUNCIL MEMBERS**

Patrick Burt, *Mayor*  
 Lydia Kou, *Vice Mayor*  
 Alison Cormack, *Councilmember*  
 Tom DuBois, *Councilmember*  
 Eric Filseth, *Councilmember*  
 Greer Stone, *Councilmember*  
 Greg Tanaka, *Councilmember*

**CITY OFFICIALS**

Edward K. Shikada, *City Manager*  
 Kiely Nose, *Acting Assistant City Manager/Chief Financial Officer/Administrative Services Director*  
 Meghan Horrigan-Taylor, *Chief Communications Officer*  
 David Ramberg, *Assistant Director of Administrative Services*  
 Brad Eggleston, *Director of Public Works*  
 Tarun Narayan, *Manager of Treasury, Debt & Investments*  
 Molly S. Stump, Esq., *City Attorney*  
 Lesley Milton, *City Clerk*

**SPECIAL SERVICES**

**Bond Counsel**

Jones Hall, A Professional Law Corporation  
*San Francisco, California*

**Disclosure Counsel**

Quint & Thimmig LLP  
*Larkspur, California*

**Financial Advisor**

PFM Financial Advisors LLC  
*San Francisco, California*

**Paying Agent and Escrow Bank**

U.S. Bank Trust, National Association  
*San Francisco, California*

**VERIFICATION AGENT**

\_\_\_\_\_  
 \_\_\_\_\_, \_\_\_\_\_

\*Information therein is not incorporated by reference into this Official Statement.



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**CITY OF PALO ALTO**  
**Refunding General Obligation Bonds**  
**(Election of 2008), Series 2022A**  
**(Tax-Exempt)**

\$ \_\_\_\_\_ \*

**CITY OF PALO ALTO**  
**Refunding General Obligation Bonds**  
**(Election of 2008), Series 2022B**  
**(Federally Taxable)**

## INTRODUCTION

This Official Statement, which includes the cover page and the appendices hereto, provides information in connection with the sale of the \$ \_\_\_\_\_ \* City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022A (the “2022A Bonds”) and the \$ \_\_\_\_\_ \* City of Palo Alto Refunding General Obligation Refunding Bonds (Election of 2008), Series 2022B (Federally Taxable) (the “2022B Bonds” and, with the 2022A Bonds, the “2022 Bonds”).

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and the appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2022 Bonds to potential investors is made only by means of the entire Official Statement.

### **The City**

The City of Palo Alto (the “City”) is located in northern Santa Clara County (the “County”), approximately 35 miles south of the city of San Francisco. The City is part of the San Francisco Bay metropolitan area, and was incorporated in 1894. The City’s first Charter was granted by the State in 1909 and the City continues to operate as a charter city. Located between the cities of San Francisco and San Jose, the City is a largely built-out community. The City covers an area of twenty-six square miles and has dedicated almost one-half of the area to open spaces of parks and wildlife preserves. Public facilities include five libraries, four community centers, a cultural arts center, an adult and children’s theater, a junior museum and zoo, and a golf course. The City is located adjacent to Stanford University, one of the premier institutions of higher education in the nation. The City shares its borders with East Palo Alto, Mountain View, Los Altos, Los Altos Hills, Stanford, Portola Valley, and Menlo Park. The City’s current population is approximately 68,000.

The City is a charter city and is governed by a city council of seven representatives (the “City Council”). City Council members are elected city-wide on an at-large basis for staggered four-year 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

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\* Preliminary, subject to change.



the positions of City Manager and three other officials, the City Attorney, City Clerk, and City Auditor, all of whom report to Council.

For more complete information concerning the City, including certain financial information, see “THE CITY,” APPENDIX A—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY and APPENDIX B—CITY FINANCIAL INFORMATION. The City’s audited financial statements for the fiscal year ended June 30, 2021, are included as APPENDIX C— ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2021.

### **Purpose of the Issuance of the 2022 Bonds**

The 2022A Bonds are being issued to refund, (a) on a current basis, the City’s outstanding City of Palo Alto General Obligation Bonds, Election of 2008, Series 2010A (the “2010 Bonds”), and (b) on an advance basis, the portion of the City’s outstanding City of Palo Alto General Obligation Bonds, Election of 2008, Series 2013A, maturing on and after August 1, 2024 (the “2013 Bonds” and, with the 2010 Bonds, the “Prior Bonds”). The Prior Bonds were issued to finance project approved by the voters of the City in 2008. See “THE 2022 BONDS” and “REFUNDING PLAN.”

The Prior Bonds were authorized at an election of the registered voters of the City held on November 4, 2008, at which more than two-thirds of the persons voting on the measure voted to authorize the issuance and sale of not to exceed \$76,000,000 principal amount of general obligation bonds.

### **Authority for Issuance**

The 2022 Bonds are being issued under the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the “Bond Law”) and a resolution adopted by the City Council on May 2, 2022 (the “Bond Resolution”).

### **Security and Sources of Payment for the 2022 Bonds**

The 2022 Bonds are general obligations of the City, and the City Council has the power to direct the County to levy *ad valorem* taxes upon all property within the City subject to taxation without limitation of rate or amount, for the payment of the 2022 Bonds and the interest thereon. Under the Bond Resolution, the City directs the County to levy on all the taxable property in the City, in addition to all other taxes, a continuing direct and *ad valorem* tax annually during the period the 2022 Bonds are Outstanding in an amount sufficient to pay the principal of and interest on the 2022 Bonds when due, without limitation of rate or amount (except certain personal property which is taxable at limited rates). See “SECURITY FOR THE 2022 BONDS.”

### **Description of the 2022 Bonds**

The 2022 Bonds are being issued as current interest bonds. The 2022 Bonds will be dated as of their date of delivery, will be issued as fully registered bonds, without coupons, in the denominations of \$5,000 principal amount or any integral multiple thereof. Interest on the 2022 Bonds accrues from their date of delivery and is payable semiannually on each February 1 and August 1 (each an “Interest Payment Date”), commencing August 1, 2022.



The 2022 Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company (“DTC”), and will be available to actual purchasers of the 2022 Bonds (the “Beneficial Owners”) in the denominations set forth on the cover page hereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the 2022 Bonds. See “BOOK-ENTRY ONLY SYSTEM” and APPENDIX G—BOOK-ENTRY SYSTEM. In event that the book-entry system described below is no longer used with respect to the 2022 Bonds, the 2022 Bonds will be registered in accordance with the Resolution as described herein. See “THE 2022 BONDS—Registration, Transfer and Exchange of Bonds.” Individual purchases of interests in the 2022 Bonds will be available to purchasers of the 2022 Bonds in the denominations of \$5,000 principal amount or any integral multiple thereof.

### **Redemption**

Certain of the 2022 Bonds are subject to optional and sinking fund redemption prior to maturity. See “THE 2022 BONDS—Redemption.”

### **Tax Matters**

Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the 2022A Bonds will be excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. *Interest on the 2022B Bonds is not excludable from gross income of the owners thereof for federal income tax purposes.* Also, in the opinion of Bond Counsel, interest on the 2022 Bonds will be exempt from State of California (the “State”) personal income taxes. See “LEGAL MATTERS—Tax Matters”

### **Offering and Delivery**

The 2022 Bonds are offered when, as and if issued and received by the purchasers, subject to approval as to their legality by Bond Counsel. It is anticipated that the 2022 Bonds will be available for delivery through the facilities of DTC on or about June 16, 2022.

### **Continuing Disclosure**

The City has covenanted for the benefit of the holders and Beneficial Owners of the 2022 Bonds to make available certain financial information and operating data relating to the City and to provide notices of the occurrence of certain enumerated events in compliance with S.E.C. Rule 15c2-12(b)(5) (the “Rule”). The specific nature of the information to be made available and of the notices of enumerated events is summarized below under the caption “CONTINUING DISCLOSURE.” Also, see APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

### **Professionals Involved in the Bond Offering**

Several professional firms have provided services to the City with respect to the sale and delivery of the 2022 Bonds. Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, will deliver its legal opinion in substantially the forms set forth in APPENDIX E—FORM OF OPINION OF BOND COUNSEL. Quint & Thimmig LLP, Larkspur, California, is serving as disclosure counsel to the City with respect to the 2022 Bonds (“Disclosure Counsel”). PFM Financial Advisors LLC, San Francisco, California, will act as municipal advisor to the City with respect to the 2022 Bonds. The payment



of fees and expenses of such firms with respect to the 2022 Bonds is contingent on the sale and delivery of the 2022 Bonds. The City's financial statements for the fiscal year ended June 30, 2021, have been audited by CliftonLarsonAllen LLP, Glendora, California. See APPENDIX C— ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2021. The purchasers of the 2022 Bonds are not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information in this Official Statement.

### **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the 2022 Bonds are available for inspection at the office of the City Clerk, City of Palo Alto, 250 Hamilton Avenue, Palo Alto, CA 94301, telephone (650) 329-2571. The City may impose a charge for copying, mailing and handling.

This Official Statement is not to be construed as a contract with the purchasers of the 2022 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each of such documents, statutes and constitutional provisions.

The information set forth herein has been obtained from official sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the City. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the 2022 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Exchange Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget," or other similar words. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

All terms used in this Official Statement and not otherwise defined shall have the meanings given such terms in the Resolution.



## **THE 2022 BONDS**

### **Authority for Issuance**

The 2022 Bonds are issued pursuant to the Bond Law and the Bond Resolution.

### **Purposes of Issuance**

The 2022A Bonds are being issued to refund, (a) on a current basis, the 2010 Bonds, and (b) on an advance basis, the callable portion of the 2013 Bonds.

The Prior Bonds were issued to finance project approved by the voters of the City in 2008. See “REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS.”

### **Description of the 2022 Bonds**

The 2022 Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. Beneficial Owners will not receive physical certificates representing their interests in the 2022 Bonds. See “BOOK-ENTRY ONLY SYSTEM” and APPENDIX G—BOOK-ENTRY SYSTEM.

Interest on the 2022 Bonds accrues from their date of issuance and is payable semiannually on each Interest Payment Date. Interest on the 2022 Bonds accrues on the basis of a 360-day year comprised of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month next preceding any Interest Payment Date to that Interest Payment Date, inclusive, in which event it will bear interest from such Interest Payment Date, or unless it is authenticated on or before July 15, 2022, in which event it will bear interest from its date of delivery.

The 2022 Bonds are issuable in denominations of \$5,000 principal amount or any integral multiple thereof. The 2022 Bonds mature on the dates, in the years and amounts set forth on the inside cover page hereof. The principal of and interest on the 2022 Bonds (including the final interest payment upon maturity or earlier redemption) is payable by check or draft of the Paying Agent mailed by first-class mail to the Owner at the Owner’s address as it appears on the registration books maintained by the Paying Agent as of the close of business on the fifteenth day of the month next preceding such interest payment date (the “Record Date”), or at such other address as the Owner may have filed with the Paying Agent for that purpose; provided however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of the 2022 Bonds in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Paying Agent at least five (5) days before the applicable Record Date. See also “Book Entry Only System” below.

See the maturity schedule on the cover page hereof and “Debt Service Schedule.”

### **Payment**

The redemption price, if any, on the 2022 Bonds will be payable upon maturity or redemption upon surrender of such Bonds at the principal office of the Paying Agent. The interest, principal and redemption price, if any, on the 2022 Bonds will be payable in lawful money of the United States of America. The Paying Agent is authorized to pay the 2022 Bonds when duly presented for payment at maturity, and to cancel all



Bonds upon payment thereof. The 2022 Bonds are general obligations of the City and do not constitute obligations of the County. No parts of any fund of the County are pledged or obligated to the payment of the 2022 Bonds.

## Redemption

### *Optional Redemption.*

**2022A Bonds.** The 2022A Bonds maturing on and prior to August 1, \_\_\_\_\_, are not callable for redemption prior to their stated maturity date. The 2022A Bonds maturing on and after August 1, \_\_\_\_\_, are callable for redemption prior to their stated maturity date at the option of the City, in whole or in part on any date on or after August 1, \_\_\_\_\_, from any source lawfully available therefor, at a redemption price equal to the principal amount of the 2022A Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

**2022B Bonds.** The 2022B Bonds maturing on and prior to August 1, \_\_\_\_\_, are not callable for redemption prior to their stated maturity date. The 2022B Bonds maturing on and after August 1, \_\_\_\_\_, are callable for redemption prior to their stated maturity date at the option of the City, in whole or in part on any date on or after August 1, \_\_\_\_\_, from any source lawfully available therefor, at a redemption price equal to the principal amount of the 2022B Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

### *Sinking Fund Redemption.*

**2022A Bonds.** The 2022A Bonds maturing on August 1, \_\_\_\_\_ (the “2022A Term Bonds”), are also subject to redemption prior to maturity from mandatory sinking fund payments in part by lot on August 1, \_\_\_\_\_, and on each August 1 thereafter, to and including August 1, \_\_\_\_\_, at a redemption price equal to the principal amount thereof, without premium, in the aggregate respective amounts and on the respective dates as set forth in the following table.

Sinking Account Redemption Date (August 1)	Principal Amount to be Redeemed
_____	_____

\_\_\_\_\_  
†Maturity

If any 2022A Term Bonds are redeemed pursuant to optional redemption, the total amount of all future sinking fund payments with respect to such 2022A Term Bonds shall be reduced by the aggregate principal amount of such 2022A Term Bonds so redeemed, to be allocated among such



payments on a pro rata basis in integral multiples of \$5,000 principal amount (or on such other basis as the City may determine) as set forth in written notice given by the City to the Paying Agent.

**2022A Bonds.** The 2022A Bonds maturing on August 1, \_\_\_\_\_ (the “2022A Term Bonds”), are also subject to redemption prior to maturity from mandatory sinking fund payments in part by lot on August 1, \_\_\_\_\_, and on each August 1 thereafter, to and including August 1, \_\_\_\_\_, at a redemption price equal to the principal amount thereof, without premium, in the aggregate respective amounts and on the respective dates as set forth in the following table.

Sinking Account Redemption Date (August 1)	Principal Amount to be Redeemed
_____	_____

\_\_\_\_\_†Maturity

If any 2022B Term Bonds are redeemed pursuant to optional redemption, the total amount of all future sinking fund payments with respect to such 2022B Term Bonds shall be reduced by the aggregate principal amount of such 2022B Term Bonds so redeemed, to be allocated among such payments on a pro rata basis in integral multiples of \$5,000 principal amount (or on such other basis as the City may determine) as set forth in written notice given by the City to the Paying Agent.

### **Registration, Transfer and Exchange of Bonds**

If the book-entry system as described above and in APPENDIX G—BOOK-ENTRY SYSTEM is no longer used with respect to the 2022 Bonds, the following provisions will govern the registration, transfer, and exchange of the 2022 Bonds.

The Paying Agent will keep or cause to be kept sufficient books for the ownership and registration of transfer of the 2022 Bonds (the “Registration Books”), which will at all times be open to inspection by the City upon reasonable notice; and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the 2022 Bonds.

Any Refunding Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Refunding Bond for cancellation at the principal office of the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed. The City may charge a reasonable sum for each new Refunding Bond issued upon any transfer.



Whenever any Bond or Bonds are surrendered for transfer, the City will execute and the Paying Agent will authenticate and deliver a new Refunding Bond or Refunding Bonds, for like aggregate principal amount.

Refunding Bonds may be exchanged at the principal office of the Paying Agent for a like aggregate principal amount of Refunding Bonds of authorized denominations and of the same maturity. The City may charge a reasonable sum for each new Bond issued upon any exchange.

### Defeasance

The City has the option to pay and discharge the entire indebtedness on all or any portion of the outstanding Refunding Bonds in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of and interest on such Refunding Bonds, as and when the same become due and payable;
- (b) by irrevocably depositing, in trust, at or before maturity, (i) money in an amount equal to the principal amount of such Refunding Bonds and all unpaid interest thereon to maturity or (ii) Federal Securities, the principal of and interest on which when due, in the opinion of a certified public accountant delivered to the City, will provide money sufficient to pay the principal of and all unpaid interest to maturity on the 2022 Bonds to be paid, as such principal and interest become due; or
- (c) by delivery such Refunding Bonds to the Paying Agent for cancellation by it.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

### ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the 2022 Bonds are as follows:

#### Sources of Funds:

	2022A Bonds	2022B Bonds	Total
Principal Amount of 2022 Bonds			
Total Sources of Funds			

#### Uses of Funds:

Refunding of 2010 Bonds			
Refunding of 2013 Bonds			
Costs of Issuance <sup>(1)</sup>			
Total Uses of Funds			

(1) Includes the underwriters' discounts, the fees of the municipal advisor, bond counsel, disclosure counsel, the rating agency



and other third-party providers. Any excess in the Costs of Issuance Fund will be transferred to the City's Debt Service Fund.

## REFUNDING PLAN

*Refunding of the 2010 Bonds.* A portion of the proceeds of the 2022A Bonds will be deposited into an escrow fund (the "2010 Escrow Fund") created by U.S. Bank Trust Company, National Association, as escrow agent (the "Escrow Bank"), pursuant to Irrevocable Refunding Instructions given to the Escrow Bank by the City. Amounts deposited in the 2010 Escrow Fund will be held by the Escrow Bank in cash, uninvested. The cash in the 2010 Escrow Fund will be applied to redeem the 2010 Bonds on June 23, 2022, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to such date.

\_\_\_\_\_ (the "Verification Agent"), will verify that the cash in the 2010 Escrow Fund will be sufficient for the purposes described above. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

The 2010 Bonds to be refunded are as follows:

Issue Date	Maturity Date	Interest Rate	Redemption Date	Principal Amount	Redemption Price	CUSIP <sup>†</sup> Number
6/30/10	8/1/22	4.500%	6/16/22	\$ 1,450,000	100.000	697362 TG6
6/30/10	8/1/23	4.500	6/16/22	1,515,000	100.000	697362 TH4
6/30/10	8/1/24	4.500	6/16/22	1,585,000	100.000	697362 TJ0
6/30/10	8/1/25	4.500	6/16/22	1,655,000	100.000	697362 TK7
6/30/10	8/1/26	5.000	6/16/22	1,730,000	100.000	697362 TL5
6/30/10	8/1/27	5.000	6/16/22	1,820,000	100.000	697362 TM3
6/30/10	8/1/28	5.000	6/16/22	1,910,000	100.000	697362 TN1
6/30/10	8/1/29	5.000	6/16/22	2,005,000	100.000	697362 TP6
6/30/10	8/1/32	4.375	6/16/22	6,595,000	100.000	697362 TQ4
6/30/10	8/1/34	4.375	6/16/22	4,890,000	100.000	697362 TR5
6/30/10	8/1/40	5.000	6/16/22	15,415,000	100.000	697362 TS0

A portion of the proceeds of the 2022A Bonds will be retained by the Paying Agent in a costs of issuance account (the "2022A Costs of Issuance Account") and used to pay costs associated with the issuance of the 2022A Bonds. Any proceeds of sale of the 2022A Bonds not needed to redeem the 2010 Bonds or to pay costs of issuance of the 2022A Bonds will be held by the Paying Agent in the Debt Service Fund to be used only for payment of principal of and interest on the 2022A Bonds when due.

*Refunding of the 2013 Bonds.* A portion of the proceeds of the 2022B Bonds will be deposited into an escrow fund (the "2013 Escrow Fund") established under an escrow agreement (the "2013 Escrow Agreement") by and between the City and the Escrow Bank. A portion of the amounts deposit in the 2013 Escrow Fund will be invested in direct obligations of the United States of America (the "Escrowed Securities"). The maturing Escrowed Securities, the investment earnings thereon and the cash in the 2013 Escrow Fund will be applied to (1) pay interest on the 2013 Bonds to and including August 1, 2023, and to redeem the 2013 Bonds maturing on and after August 1, 2024, on August 1, 2023, at a redemption price equal to 100% of the principal amount thereof.

<sup>†</sup> Copyright 2021, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, operated by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services.



The Verification Agent will verify that the maturing Escrowed Securities, the investment earnings thereon and the cash in the Escrow Fund will be sufficient for the purposes described above. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

The 2013 Bonds to be refunded are as follows:

Issue Date	Maturity Date	Interest Rate	Redemption Date	Principal Amount	Redemption Price	CUSIP <sup>†</sup> Number
6/26/13	8/1/24	5.000%	8/1/23	\$ 525,000	100.000	697362 UH2
6/26/13	8/1/25	5.000	8/1/23	555,000	100.000	697362 UJ8
6/26/13	8/1/26	5.000	8/1/23	585,000	100.000	697362 UK5
6/26/13	8/1/27	5.000	8/1/23	610,000	100.000	697362 UL3
6/26/13	8/1/28	5.000	8/1/23	645,000	100.000	697362 UM1
6/26/13	8/1/29	3.500	8/1/23	670,000	100.000	697362 UN9
6/26/13	8/1/30	4.000	8/1/23	695,000	100.000	697362 UP4
6/26/13	8/1/31	4.000	8/1/23	725,000	100.000	697362 UQ2
6/26/13	8/1/33	4.000	8/1/23	1,540,000	100.000	697362 UR0
6/26/13	8/1/35	4.000	8/1/23	1,670,000	100.000	697362 US8
6/26/13	8/1/38	4.000	8/1/23	2,765,000	100.000	697362 UT6
6/26/13	8/1/41	4.000	8/1/23	2,590,000	100.000	697362 UU3

A portion of the proceeds of the 2022B Bonds will be retained by the Paying Agent in a costs of issuance account (the “2022B Costs of Issuance Account”) and used to pay costs associated with the issuance of the 2022B Bonds. Any proceeds of sale of the 20022B Bonds not needed to redeem the 2013 Bonds or to pay costs of issuance of the 2022B Bonds will be held by the Paying Agent in the Debt Service Fund to be used only for payment of principal of and interest on the 2022B Bonds when due.

<sup>†</sup> Copyright 2021, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, operated by Standard & Poor’s. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services.



## DEBT SERVICE SCHEDULES

The following table shows the debt service schedule with respect to the 2022 Bonds (assuming no optional redemptions).

Bond Year Ending August 1	2022A Bonds			2022B Bonds			Total
	Principal*	Interest <sup>(1)</sup>	Total	Principal*	Interest <sup>(1)</sup>	Total	
2022							
2022							
2023							
2024							
2025							
2026							
2027							
2028							
2029							
2030							
2031							
2032							
2033							
2034							
2035							
2036							
2037							
2038							
2039							
2040							
2041							
Total							

\*Preliminary, subject to change.

(1) Interest on the 2022 Bonds is payable semiannually on each February 1 and August 1, commencing August 1, 2022.

## SECURITY FOR THE 2022 BONDS

### Ad Valorem Taxes

*Bonds Payable from Ad Valorem Property Taxes.* The 2022 Bonds are general obligations of the City, and the City Council has the power to direct the County to levy ad valorem taxes upon all property within the City subject to taxation without limitation of rate or amount, for the payment of the 2022 Bonds and the interest thereon. Under the Bond Resolution, the City directs the County to levy on all the taxable property in the City, in addition to all other taxes, a continuing direct and ad valorem tax annually during the period the 2022 Bonds are Outstanding in an amount sufficient to pay the principal of and interest on the 2022 Bonds when due, without limitation of rate or amount (except certain personal property which is taxable at limited rates).

*Levy and Collection.* The City has covenanted to direct the County to levy such ad valorem taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service. Such taxes,



when collected, will be deposited into a debt service fund for the 2022 Bonds, which is maintained by the City and which is irrevocably pledged for the payment of principal of and interest on the 2022 Bonds when due. See “-Debt Service Fund” below.

Property taxes within the City are assessed and collected by the County in the same manner and at the same time, and in the same installments as other ad valorem taxes on real property, and will have the same priority, become delinquent at the same times and in the same proportionate amounts, and bear the same proportionate penalties and interest after delinquency, as do the other ad valorem taxes on real property. The City has elected not to participate in the County Teeter Plan. See “PROPERTY TAXATION – Tax Levies and Delinquencies.”

*Annual Tax Rates.* The amount of the annual ad valorem tax levied by the County, as directed by the City, to repay the 2022 Bonds will be determined by the relationship between the assessed valuation of taxable property in the City and the amount of debt service due on the 2022 Bonds. Fluctuations in the annual debt service on the 2022 Bonds and the assessed value of taxable property in the City may cause the annual tax rate to fluctuate.

Natural, economic and other factors both within and out of the City’s control, such as economic recession, deflation of land values, a relocation out of the City or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood or other natural disaster, could cause a reduction in the assessed value within the City and necessitate a corresponding increase in the annual tax rate. For additional discussion, see “CERTAIN RISK FACTORS” below.

### **Debt Service Fund**

The City will establish the Debt Service Fund (the “Debt Service Fund”), which will be established as a separate fund to be maintained distinct from all other funds of the City. All taxes levied by the County, as directed by the City, pursuant to the Refunding Bond Resolution for the payment of the principal of and interest and premium (if any) on the 2022 Bonds will be deposited in the Debt Service Fund held by the City promptly upon the receipt by the City from the County. The Debt Service Fund is pledged for the payment of the principal of and interest and premium (if any) on the 2022 Bonds when and as the same become due. The City will transfer amounts in the Debt Service Fund, to the extent necessary to pay the principal of and interest on the 2022 Bonds as the same become due and payable, to the Paying Agent as required to pay the principal of and interest and premium (if any) on the 2022 Bonds.

If, after payment in full of the 2022 Bonds, any amounts remain on deposit in the Debt Service Fund, the City shall transfer such amounts to its General Fund, to be applied solely in a manner which is consistent with the requirements of applicable state and federal tax law.

### **Statutory Lien**

In accordance with Section 53515 of the California Government Code, the 2022 Bonds are secured by a statutory lien on all revenues received pursuant to the levy and collection of the ad valorem tax. This lien automatically arises without the need for any action or authorization by the City or the City Council, and shall be valid and binding from the time the 2022 Bonds are executed and delivered. The revenues received pursuant to the levy and collection of the ad valorem tax shall be immediately subject to the lien, and the lien shall immediately attach to the revenues and be effective, binding, and enforceable against the



City, its successors, transferees, and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for any physical delivery, recordation, filing, or further act.

### **PAYING AGENT**

U.S. Bank Trust Company, National Association will act as the transfer agent, bond registrar, authenticating agent and paying agent for the 2022 Bonds (the “Paying Agent”). As long as DTC is the registered owner of the 2022 Bonds and DTC’s book-entry method is used for the 2022 Bonds, the Paying Agent will send any notice of redemption or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the redemption of the 2022 Bonds called for redemption or of any other action premised on such notice.

The Paying Agent, the City, the County and the Underwriters (as hereinafter defined) have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests for the 2022 Bonds.

### **BOOK-ENTRY ONLY SYSTEM**

The Depository Trust Company, New York, New York, will act as securities depository for the 2022 Bonds. The 2022 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. See APPENDIX G—BOOK-ENTRY SYSTEM.

### **THE CITY**

The City is located approximately 35 miles south of the City of San Francisco. The City was incorporated in 1894. Its first Charter was granted by the State in 1909 and the City continues to operate as a charter city. Located between the cities of San Francisco and San Jose, the City is a largely built-out community. The City 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. The City’s public facilities include five libraries, four community centers, a cultural arts center, an adult and children’s theater, a junior museum and zoo, and a golf course. The City shares its borders with East Palo Alto, Mountain View, Los Altos, Los Altos Hills, Stanford, Portola Valley, and Menlo Park. The City’s current population is approximately 68,000.

Stanford University covers a 700-acre area in the City, and the City is home to high-tech leaders such as SAP America, Varian Medical Systems, VMware, Tibco Software, the Electric Power Research Institute, Communications and Power Industries and Skype. The City is also a major employment center, including U.S. Department of Veterans Affairs, Palo Alto Health Care System, Stanford Hospitals and Clinics, Lockheed Martin Missiles and Space, Palo Alto Medical Foundation, Stanford Shopping Center, the law offices of Wilson Sonsini Goodrich and Rosati, and the Xerox Palo Alto Research Center.

The City is a charter city and is governed by a City Council of seven representatives. City Council members are elected city-wide on an at-large basis for staggered four-year 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.

Members of the Council and key administrative personnel of the City are listed at the front of this Official Statement.

For more complete information concerning the City, including certain financial information, see APPENDIX A—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY and APPENDIX B—CITY FINANCIAL INFORMATION. The City’s audited financial statements for the fiscal year ended June 30, 2021, are included as APPENDIX C—ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2021.

## **PROPERTY TAXATION**

*The information in this section describes ad valorem property taxation, assessed valuation, and other measures of the tax base of the City. The 2022 Bonds are payable solely from ad valorem taxes levied and collected by the County on taxable property in the City. The City’s General Fund is not a source for the repayment of the 2022 Bonds.*

### **Property Taxation Generally**

The City levies property taxes for general operating purposes as well as the payment of voter-approved general obligation bonds. Taxes levied to pay debt service for general obligation bonds may only be applied for that purpose. In general, if overall assessed values of taxable property in the City were to decline, then the City, in order to generate sufficient tax revenues to pay debt service on the 2022 Bonds ,would increase tax rates applicable to the 2022 Bonds.

### **Property Tax Collection Procedures**

In California, property which is subject to ad valorem taxes is classified as “secured” or “unsecured.” The “secured roll” is that part of the assessment roll containing state assessed public utilities’ property and property, the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

Property taxes on the secured roll are due in two installments, on November 1 and August 1 of each fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax defaulted on or about June 30 of the fiscal year. Such property may



thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

Property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding January 1. A bill enacted in 1983, SB813 (Statutes of 1983, Chapter 498), however, provided for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Thus, this legislation eliminated delays in the realization of increased property taxes from new assessments. As amended, SB813 provided increased revenue to taxing jurisdictions to the extent that supplemental assessments of new construction or changes of ownership occur subsequent to the January 1 lien date and result in increased assessed value.

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A 10% penalty is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1.5% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date.

The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

### **Taxation of State-Assessed Utility Property**

The State Constitution provides that most classes of property owned or used by regulated utilities be assessed by the State Board of Equalization ("SBE") and taxed locally. Property valued by the SBE as an operating unit in a primary function of the utility taxpayer is known as "unitary property," a concept designed to permit assessment of the utility as a going concern rather than assessment of each individual element of real and personal property owned by the utility taxpayer. State-assessed unitary and "operating nonunitary" property (which excludes nonunitary property of regulated railways) is allocated to the counties based on the situs of the various components of the unitary property. Except for unitary property of regulated railways and certain other excepted property, all unitary and operating nonunitary property is taxed at special County-wide rates and tax proceeds are distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year.

### **Assessed Valuation**

*Assessed Valuation.* The assessed valuation of property in the City is established by the County Assessor, except for public utility property which is assessed by the SBE. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIII A of the California Constitution.

Certain classes of property, such as churches, colleges, not-for-profit hospitals and charitable institutions, are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions. Property taxes allocated to the City are collected by the County at the same time and on the same tax rolls as are county and special district taxes. The valuation of secured



property by the County Assessor is established as of January 1 and is subsequently equalized in September of each year.

Future assessed valuation growth allowed under Article XIII A of the State Constitution (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of “situated” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies will share the growth of “base” revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year.

*Assessed Valuation History.* The table below shows the assessed valuation of taxable property in the City for the most recent fiscal years.

**TABLE 1  
CITY OF PALO ALTO  
HISTORIC ASSESSED VALUATIONS**

Fiscal Year	Local Secured	Utility	Unsecured	Total Assessed Valuation	% Change
2011-12	\$20,967,297,668	\$2,572,716	\$1,516,837,280	\$22,486,707,664	n/a
2012-13	22,334,464,145	2,572,716	1,355,969,707	23,693,006,568	5.36%
2013-14	24,039,563,713	2,572,716	1,493,921,967	25,536,058,396	7.78
2014-15	25,572,917,948	2,572,716	1,622,636,368	27,198,127,032	6.51
2015-16	27,618,260,149	2,572,716	1,794,920,762	29,415,753,627	8.15
2016-17	30,148,340,720	2,572,716	1,803,467,979	31,954,381,415	8.63
2017-18	32,509,995,986	2,572,716	1,922,170,300	34,434,739,002	7.76
2018-19	34,891,627,511	7,004,400	1,902,781,228	36,801,413,139	6.87
2019-20	37,331,775,663	7,004,400	1,946,679,944	39,285,460,007	6.75
2020-21	40,152,306,303	7,004,400	2,194,615,259	42,353,925,962	7.81
2021-22	41,743,865,568	7,004,400	2,232,482,077	43,983,352,045	3.85

Source: California Municipal Statistics, Inc.

Assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the City’s control, such as a general market decline in property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year.

*Appeals of Assessed Valuation; Blanket Reductions of Assessed Values.* There are two basic types of property tax assessment appeals provided for under State law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the assessor immediately subsequent to an instance of a change in ownership or completion of new construction. If the base year value assigned by the assessor is reduced, the valuation of the property cannot increase in subsequent years more than 2% annually unless and until another change in ownership and/or additional new construction activity occurs.



The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner's property by filing a written application, in the form prescribed by the SBE, with the appropriate county board of equalization or assessment appeals board. A property owner desiring a Proposition 8 reduction of the assessed value of such owner's property in any one year must apply to the county assessment appeals board (the "Appeals Board"). Following a review of the application by the county assessor's office, the county assessor may offer to the property owner the opportunity to stipulate to a reduced assessment or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

In addition to the above-described taxpayer appeals, county assessors may independently reduce assessed valuations based on changes in the market value of property, or for other factors such as the complete or partial destruction of taxable property caused by natural or man-made disasters such as earthquakes, floods, fire, drought or toxic contamination pursuant to relevant provisions of the State Constitution.

In addition, Article XIII A of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis.

The City typically experiences increases in assessment appeals activity during economic downturns and decreases in assessment appeals as the economy rebounds.

*Risk of Decline in Property Values; Fire; Earthquake Risk.* Property values could be reduced by factors beyond the City's control, including fire, earthquake and a depressed real estate market due to general economic conditions in the County, the region and the State.

Other possible causes for a reduction in assessed values include the complete or partial destruction of taxable property caused by other natural or manmade disasters, such as flood, fire, drought, toxic dumping, acts of terrorism, etc., or reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes).

No assurance can be given that property tax appeals and/or blanket reductions of assessed property values will not significantly reduce the assessed valuation of property within the City in the future. For additional discussion, see "CERTAIN RISK FACTORS."



*Assessed Valuation by Land Use.* The following table gives a distribution of taxable real property located in the City by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**TABLE 2**  
**CITY OF PALO ALTO**  
**ASSESSED VALUATION AND PARCELS BY LAND USE**

	FY2021-22 Assessed Valuation <sup>(1)</sup>	% of Total	No. of Parcels	% of Total
<u>Non-Residential:</u>				
Agricultural/Forest	\$ 38,144,744	0.09%	49	.23%
Commercial	2,311,401,779	5.54	460	2.19
Professional/Office	6,546,290,199	15.68	562	2.68
Industrial/Research & Development	2,339,223,961	5.60	230	1.10
Recreational	68,559,232	0.16	14	.07
Government/Social/Institutional	40,361,772	0.10	119	.57
Miscellaneous	8,441,040	0.02	19	.09
Subtotal Non-Residential	11,352,422,727	27.20	1,453	6.93
<u>Residential:</u>				
Single Family Residence	24,897,037,849	59.64	15,188	72.40
Condominium/Townhouse	2,900,176,661	6.95	3,156	15.05
Mobile Home	120,444	0.00	8	.04
2-4 Residential Units	603,513,001	1.45	497	2.37
5+ Residential Units/Apartments	1,773,572,738	4.25	346	1.65
Subtotal Residential	30,174,420,693	72.28	19,195	91.50
Vacant Parcels	217,022,148	0.52	329	1.57
Total	\$41,743,865,568	100.00%	20,9727	100.00%

Source: California Municipal Statistics, Inc.

(1) Total secured assessed valuation, excluding tax-exempt property.



*Assessed Valuation of Single-Family Homes.* The following table focuses on single-family residential properties only, which comprise approximately 72.4% of the assessed value of taxable property in the City.

**TABLE 3**  
**CITY OF PALO ALTO**  
**PER PARCEL - ASSESSED VALUATION OF SINGLE-FAMILY HOMES**

	No. of Parcels	FY2021-22 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	15,115	\$ 24,897,037,849	\$ 1,647,174	\$ 1,166,660

FY2021-22 Assessed Valuation	No. of Parcels <sup>(1)</sup>	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$199,999	2,271	15.025%	15.025%	\$ 276,277,479	1.110%	1.110%
\$200,000 - \$399,999	1,336	8.839	23.864	394,435,821	1.584	2.694
\$400,000 - \$599,999	1,096	7.251	31.115	550,350,000	2.211	4.904
\$600,000 - \$799,999	1,102	7.291	38.406	767,133,798	3.081	7.986
\$800,000 - \$999,999	935	6.186	44.591	843,257,652	3.387	11.373
\$1,000,000 - \$1,199,999	981	6.490	51.082	1,075,650,158	4.320	15.693
\$1,200,000 - \$1,399,999	767	5.074	56.156	992,045,086	3.985	19.678
\$1,400,000 - \$1,599,999	752	4.975	61.131	1,124,935,157	4.518	24.196
\$1,600,000 - \$1,799,999	696	4.605	65.736	1,182,734,029	4.751	28.946
\$1,800,000 - \$1,999,999	574	3.798	69.534	1,090,034,969	4.378	33.325
\$2,000,000 - \$2,199,999	509	3.368	72.901	1,065,876,882	4.281	37.606
\$2,200,000 - \$2,399,999	459	3.037	75.938	1,054,350,224	4.235	41.841
\$2,400,000 - \$2,599,999	472	3.123	79.061	1,177,587,290	4.730	46.570
\$2,600,000 - \$2,799,999	476	3.149	82.210	1,284,583,642	5.160	51.730
\$2,800,000 - \$2,999,999	380	2.514	84.724	1,101,428,927	4.424	56.154
\$3,000,000 - \$3,199,999	341	2.256	86.980	1,054,947,701	4.237	60.391
\$3,200,000 - \$3,399,999	284	1.879	88.859	936,318,727	3.761	64.152
\$3,400,000 - \$3,599,999	211	1.396	90.255	737,732,583	2.963	67.115
\$3,600,000 - \$3,799,999	188	1.244	91.499	694,817,993	2.791	69.906
\$3,800,000 - \$3,999,999	168	1.111	92.610	654,847,649	2.630	72.536
\$4,000,000 and greater	1,117	7.390	100.000	6,837,692,082	27.464	100.000
Total	15,115	100.000%		\$24,897,037,849	100.000%	

Source: California Municipal Statistics, Inc.

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

*Principal Taxpayers.* In general, the more property (by assessed value) owned by any single assessee, the more exposure property tax collections have to weakness in that taxpayer's financial situation and ability or that taxpayer's willingness to pay property taxes. Based on Fiscal Year 2021-22 locally assessed taxable valuations, the top twenty taxable property owners in the City represent approximately 21.0% of the total Fiscal Year 2021-22 taxable value.



The following table shows the 20 largest owners of taxable property in the City as determined by secured assessed valuation in Fiscal Year 2021-22.

**TABLE 4  
CITY OF PALO ALTO  
LARGEST LOCAL SECURED PROPERTY TAXPAYERS**

	Property Owner	Primary Land Use	FY2021-22 Assessed Valuation	% of Total <sup>(1)</sup>
1.	Board of Trustees Leland Stanford Jr. University	Various Land Uses	\$6,650,707,376 <sup>(2)</sup>	15.93%
2.	Google Inc.	Industrial/Office	324,307,837	0.78
3.	ARE-San Francisco 80 LLC	Industrial	294,014,758	0.70
4.	ARE-San Francisco 69 LLC	Office Building	142,960,280	0.34
5.	395 Page Mill LLC	Office Building	124,357,864	0.30
6.	SVF Sherman Palo Alto Corporation	Office Building	120,500,000	0.29
7.	Hohbach Realty Co. LP	Apartments	111,535,894	0.27
8.	KRE El Camino Real Owner LLC	Office Building	103,600,000	0.25
9.	PA Hotel Holdings LLC	Hotel	92,275,077	0.22
10.	530 Lytton Owner LLC	Office Building	91,500,000	0.22
11.	Palo Alto Tech Center LLC	Office Building	86,018,514	0.21
12.	Gwin Property Inc.	Office Building	82,559,560	0.20
13.	SI 45 LLC	Office Building	80,735,316	0.19
14.	BVK Hamilton Ave. LLC	Office Building	76,934,719	0.18
15.	M10 Dev LLC	Hotel	70,455,423	0.17
16.	Ronald & Ann Williams	Shopping Center	69,600,610	0.17
17.	GPCA Owner LLC	Apartments	68,429,235	0.16
18.	PPC Forest Towers LLC	Apartments	62,839,402	0.15
19.	130 Lytton Owner LLC	Office Building	60,022,946	0.14
20.	2747 Park PA LLC	Office Building	57,675,001	0.14
	Total Top 20		<u>\$8,771,029,812</u>	<u>21.01%</u>

Source: California Municipal Statistics, Inc.

(1) FY2021-22 Local Secured Assessed Valuation: \$41,743,865,568.

(2) Net taxable value.

*Tax Levies and Delinquencies.* Beginning in 1978-79, Article XIII A and its implementing legislation shifted the function of property taxation primarily to the counties, except for levies to support prior-voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.



The following table sets forth the secured tax charges and delinquencies for the most recent fiscal years.

**TABLE 5**  
**CITY OF PALO ALTO**  
**SECURED TAX CHARGES AND DELINQUENCIES**

Fiscal Year	Secured Tax Charge <sup>(1)</sup>	Amt. Del. June 30	% Del. June 30
2010-11	\$3,443,434.30	\$29,254.95	0.85%
2011-12	3,208,610.90	21,029.74	0.66
2012-13	<i>Not available</i>		
2013-14	4,304,606.92	33,648.91	0.78
2014-15	4,122,948.88	44,016.83	1.07
2015-16	4,112,476.21	67,220.43	1.63
2016-17	3,895,321.53	47,443.37	1.22
2017-18	3,806,759.16	11,434.14	0.30
2018-19	3,844,666.46	26,401.65	0.69
2019-20	3,972,942.77	15,960.60	0.40
2020-21	3,813,649.97	28,528.14	0.75

Source: California Municipal Statistics, Inc.

(1) 1% General Fund apportionment

*Teeter Plan.* The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in section 4701 et seq. of the California Revenue and Taxation Code. The Teeter Plan guarantees distribution of 100% of the general taxes levied to the taxing entities within the County, with the County retaining all penalties and interest penalties affixed upon delinquent properties and redemptions of subsequent collections. Under the Teeter Plan, the County apportions secured property taxes on a cash basis to local political subdivisions, including the City, for which the County acts as the tax-levying or tax-collecting agency. At the conclusion of each fiscal year, the County distributes 100% of any taxes delinquent as of June 30th to the respective taxing entities.

The County cash position is protected by a special fund, known as the “Tax Loss Reserve Fund,” which accumulates moneys from interest and penalty collections. In each fiscal year, the Tax Loss Reserve Fund is required to be funded to the amount of delinquent taxes plus one percent of that year’s tax levy. Amounts exceeding the amount required to be maintained in the tax loss reserve fund may be credited to the County’s general fund. Amounts required to be maintained in the tax loss reserve fund may be drawn on to the extent of the amount of uncollected taxes credited to each agency in advance of receipt.

The Teeter Plan is to remain in effect unless the County Board orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the County Board receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the County Board is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. The County Board may also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll in that agency. If the Teeter Plan is discontinued subsequent to its implementation, only those secured property taxes actually



collected would be allocated to political subdivisions (including the City) for which the County acts as the tax-levying or tax-collecting agency, but penalties and interest would be credited to the political subdivisions.

The City is not aware of any petitions for the discontinuance of the Teeter Plan in the County.

*Direct and Overlapping Debt.* Set forth below is a direct and overlapping debt report (the “Debt Report”) prepared by California Municipal Statistics, Inc. and effective March 1, 2022. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the City; (2) the second column shows the percentage that the City’s assessed valuation represents of the total assessed valuation of each public agency identified in the first column; and (3) the third column is an apportionment of the dollar amount of each public agency’s outstanding debt to property in the City, as determined by multiplying the total outstanding debt of each agency by the percentage of the City’s assessed valuation represented in the second column.



**TABLE 6**  
**CITY OF PALO ALTO**  
**STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT**  
**(as of March 1, 2022)**

CITY OF PALO ALTO

2021-22 Assessed Valuation: \$43,983,352,045

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 3/1/22</u>
Santa Clara County	7.632%	\$ 87,497,827
Foothill-De Anza Community College District	21.622	142,246,451
Palo Alto Unified School District	90.013	188,315,935
Fremont Union High School District	.009	52,449
Los Gatos-Saratoga Joint Union High School District	.013	10,924
Mountain View-Los Altos Union High School District	.827	1,579,629
Cupertino Union School District	.016	43,483
Los Altos School District	1.114	1,623,711
Mountain View-Whisman School District	.587	1,591,915
Saratoga Union School District	.029	5,001
Whisman School District	1.478	86,245
<b>City of Palo Alto</b>	<b>100.000</b>	<b>55,135,000<sup>(1)</sup></b>
El Camino Hospital District	.070	77,868
Midpeninsula Regional Open Space District	12.443	10,523,667
City of Palo Alto Special Assessment Bonds	100.000	16,315,000
Santa Clara Valley Water District Benefit Assessment District	7.632	<u>3,674,808</u>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>508,779,913</b>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Santa Clara County General Fund Obligations	7.632%	95,102,304
Santa Clara County Pension Obligation Bonds	7.632	25,615,928
Santa Clara County Board of Education Certificates of Participation	7.632	203,774
Foothill-DeAnza Community College District Certificates of Participation	21.622	4,775,219
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	.013	145
Mountain View-Los Altos Union High School District Certificates of Participation	.827	17,818
Los Altos School District Certificates of Participation	1.114	19,702
Saratoga Union School District Certificates of Participation	.029	677
<b>City of Palo Alto General Fund Obligations</b>	<b>100.000</b>	<b>145,605,000</b>
Santa Clara County Vector Control District Certificates of Participation	7.632	134,705
Midpeninsula Regional Open Space Park District General Fund Obligations	12.443	<u>12,406,368</u>
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>283,881,640</b>
Less: Santa Clara County supported obligations		<u>1,379,771</u>
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>282,501,869</b>
 <b>GROSS COMBINED TOTAL DEBT</b>		<b>792,661,553<sup>(2)</sup></b>
<b>NET COMBINED TOTAL DEBT</b>		<b>791,281,782</b>

Ratios to 2021-22 Assessed Valuation:

<b>Direct Debt (\$55,135,000)</b> .....	<b>0.13%</b>
Direct and Overlapping Tax and Assessment Debt .....	1.16%
<b>Total Direct Debt (\$200,740,000)</b> .....	<b>0.46%</b>
Gross Combined Total Debt .....	1.80%
Net Combined Total Debt .....	1.80%

Source: California Municipal Statistics, Inc.

(1) Excludes issue to be sold.

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



## Bonding Capacity

The City may issue bonds in an amount up to 2.50% of the assessed valuation of taxable property within its boundaries. Based on the fiscal year 2021-22 assessment roll, the City's gross bonding capacity is approximately \$109,958,380, and its net bonding capacity is \$54,823,380 (taking into account current outstanding debt including the Prior Bonds). Refunding bonds may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the City's bonding capacity.

## CERTAIN RISK FACTORS

*The following information should be considered by prospective investors in evaluating the 2022 Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the 2022 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.*

*The 2022 Bonds are payable from and secured by a voter-approved property tax levy on all taxable property within the City. The City is not obligated to pay the debt service on the 2022 Bonds from any other sources. This official statement, including Appendix B hereto, provides information on the City's overall operations and financings with an emphasis on its General Fund and therefore includes information on revenues and funds that are not pledged to the 2022 Bonds and should not be considered available to pay debt service on the 2022 Bonds.*

## Risks to Assessed Values Generally

Natural and economic forces can affect the assessed value of taxable property in the City. The City is located in a seismically active region, and damage from an earthquake in or near the City could cause moderate to extensive or total damage to taxable property. Other natural or man-made disasters, such as flood and sea level rise, fire, the presence of hazardous materials, acts of terrorism or public health emergencies could also cause a reduction in the assessed value of taxable property within the City. Economic and market forces, such as a downturn in the local economy can also affect assessed values. For additional discussion, see "Natural Calamities," "Limitations on Development," and "Risk of Changing Economic Conditions" below.

## Natural Calamities

*General.* From time to time, the City has been and could be subject to natural calamities, including, but not limited to, earthquake, flood or wildfire, that may adversely affect economic activity in the City, and which could have a negative impact on the City's finances and on the taxable assessed values of property located within the City.

*Seismic.* Like most regions in California, the City is located in an area of significant seismic activity. There are numerous earthquake faults near the City, including particularly the San Andreas and Hayward faults. The San Andreas fault runs along the Marin and Sonoma Coast through the Santa Cruz Mountains. The Hayward fault covers the hills on the east side of the San Francisco Bay and into San Pablo Bay, directly north and east of the City. Both can cause damaging earthquakes. Numerous other faults can produce damaging earthquakes similar in magnitude to the 1989 Loma Prieta earthquake. Soils in lowland areas away from major faults may also be unable to support buildings during major earthquakes. Landslides are likely



on hillsides during major earthquakes. Coastal areas are also at risk of tsunamis, generated from earthquakes on local faults or across the Pacific.

If there were to be an occurrence of severe seismic activity in the City, the damage resulting from such an event could have a material adverse effect on the City's financial condition and on the valuation of taxable property located within the City.

*Drought.* The State is currently experiencing drought conditions. The Governor of the State has issued targeted emergency drought proclamations to nearly all counties across the State, including the County. The emergency drought proclamations allow for the set-aside of certain state regulatory requirements until the subsistence of drought conditions. The City and the County are presently experiencing drought conditions and are likely to continue to be effected by drought conditions in the future. Lasting drought conditions could have a material negative effect on the value of taxable property within the City.

*Wildfire.* In recent years, wildfires have caused extensive damage to cities throughout the State. In some instances, entire neighborhoods have been destroyed. Areas effected by wildfires may be more prone to flooding and mudslides. In addition to the direct impact of wildfires on health and safety and property damage, the smoke from wildfires has negatively impacted the quality of life in the City and may have short-term and future impacts on residential and commercial activity in the City.

Recent wildfires in the State have been driven in large measure by drought conditions and low humidity. Experts expect that California will continue to be subject to wildfire conditions as a result in changing weather patterns due to climate change.

While the City is not in a wildfire severity zone and the City believes the possibility of wildfire damage to taxable property within the City is low, there can be no assurances that wildfires will not occur within the City or the region or that the City will not be negatively impacted by sustained smoky conditions caused by wildfires. Damage resulting from such an event could have a material adverse effect on the City's financial condition and on the value of taxable property within the City.

*Climate Change/Sea Level Rise.* Climate change caused by human activities may have adverse effects on the City and its finances. Climate change can also result in more variable weather patterns throughout the State, rising bay water levels, increased risk of flooding, changes in salinity and tidal patterns of San Francisco Bay, coastal erosion, drought, water restrictions and vegetation changes. Portions of the City are located adjacent to the San Francisco Bay and may be negatively impacted by these and other results of climate change. The City considers the potential effects of climate change in its planning.

The State of California anticipates that relative sea level rise projections stemming from greenhouse gas emissions and related climate change pose significant economic, environmental and social risks to communities along the San Francisco Bay Shoreline, including the City. Research shows that these projections may worsen if greenhouse gas emission trajectories continue unabated. Greenhouse gases and thermal expansion are the primary cause of Antarctic and Greenland ice melt which in turn are the primary source of sea level rise globally and in San Francisco Bay. San Francisco Bay sea level rise projections range between 1-3' in 2050, and 3.4' to more than 10' in 2100.

To prepare for rising tides in the years ahead, the City Council of the City adopted a Sea Level Rise Adaptation Policy in March, 2019 which bridges the high-altitude general policy statements in various City



plans (such as the Comprehensive Plan and sea level rise components of the Sustainability and Climate Action Plan) to an eventual nuts-and-bolt Sea Level Rise Adaptation Plan and timeline which staff aims to complete in 2022. When complete, the City's Sea Level Rise Vulnerability Assessment will be available on the City's website at <https://www.cityofpaloalto.org/Departments/Public-Works/Watershed-Protection/Sea-Level-Rise>. Such website is not incorporated herein by this reference.

*Sustainability and Climate Action Plan.* The City recognizes that the best way to avoid long-term impacts from the worst Sea Level Rise predictions and to minimize adaption response costs is to reduce greenhouse gas ("GHG") contributions locally and to support regional, state and national initiatives that reduce GHGs. In early 2020, the City launched an update to the Sustainability and Climate Action Plan ("S/CAP") to develop the strategies needed to meet its sustainability goals, including our goal of reducing GHG emissions 80 percent below 1990 levels by 2030 (the "80 x 30" goal). More generally, the City's S/CAP aims to reduce the City and community's greenhouse gas emissions to meet climate protection goals while considering the broader issues of sustainability, such as land use and natural resources. The City's S/CAP can be found on the City's website at <https://www.cityofpaloalto.org/City-Hall/Sustainability/SCAP>. Such website is not incorporated herein by this reference.

### **Risk of Changing Economic Conditions**

While the City has historically enjoyed strong economic and financial performance, the City faces several long-term financial challenges including climate change and sea level rise, changes to the economy of the region and the nation, and the management of pension and post-employment retirement obligations. While the City has adopted measures and policies to better position its operating budgets for future risks and future economic downturns, such measures may not be sufficient. Property values could be reduced by factors beyond the City's control, including a depressed real estate market due to general economic conditions in the County, the region, and the State.

The general economy of the City is also subject to the types of risks generally associated with all urban real estate markets. Real estate prices may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in home improvement costs and by other similar factors. In addition, if there is a significant decline in the general economy of the City, the owners of property within the City may be less able or less willing to make timely payments of property taxes or may petition for reduced assessed valuation causing a delay or interruption in the receipt of property tax revenues by the City.

### **Public Health Emergencies**

The COVID-19 Pandemic is ongoing, and its duration and severity and economic effects are uncertain in many respects and difficult to forecast. The ultimate impacts of the COVID-19 Pandemic on the City's operations and financings and on the local economy, real estate market and development within the City is not fully known, and it may be some time before the full adverse impact of the COVID-19 Pandemic is known. Further, there could be future outbreaks of other COVID-19 variants or other public health emergencies that could have material adverse effects on the City's operations and finances.

### **Bankruptcy Risks**

In bankruptcy, the voluntary application of pledged special revenues to indebtedness secured by such revenues is not subject to the automatic stay. A recent decision by the United States Court of Appeals



for the First Circuit in a case involving revenue bonds of the Puerto Rico Highways & Transportation Authority, however, concludes that an action by bondholders to compel the application of pledged special revenues is not exempt from the automatic stay. See “LEGAL MATTERS” below.

### **Cybersecurity Risks**

The City and the County may each face various cyber security threats, including, but not limited to, hacking, viruses, malware, ransomware and other attacks on their computers and their networks. No assurance can be given that the City’s or County’s efforts to manage cyber threats and attacks will be successful in all cases, or that any such attack will not materially impact the operations or finances of the City or the County.

The City owns and operates its own enterprise class data network serving the municipal city government and its operations. The City has retained information technology professionals to support, maintain and protect these operations locally in a purpose-built and physically secure environment. This network and its operations are governed by and in compliance with all applicable governmental regulations as well as the City’s own administrative regulations. Within the City’s operations and guidance is an active cyber-security program designed to protect from, and to quickly identify and mitigate, a multitude of complex security threats. While no network is completely immune from all possible compromise, the City exercises its due diligence in protecting the data it possesses and the systems it operates. To date, there have been no significant cyber-attacks on the City’s computers and technologies.

The City is reliant on the County in connection with the administration of the 2022 Bonds, including without limitation the County’s tax collectors for the levy and collection of *ad valorem* taxes, and the Paying Agent. No assurance can be given that the City, the County, and these other entities will not be adversely affected by cyber threats and attacks in a manner that may affect owners of the 2022 Bonds.

## **CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS**

Principal of and interest on the 2022 Bonds are payable from the proceeds of an ad valorem tax levied by the County, as directed by the City, for the payment thereof. See “THE REFUNDING BONDS” and “SECURITY FOR THE REFUNDING BONDS” above. Articles XIII A, XIII B, XIII C and XIII D of the State Constitution, Propositions 62, 111, and 218 and 1A, and certain other provisions of law discussed below are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the County to levy, and the City to spend, tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the County to levy taxes for payment of the 2022 Bonds. The tax levied by the County, as directed by the City, for payment of the 2022 Bonds was approved by the City’s voters in compliance with Article XIII A and all applicable laws.

### **Article XIII A of the State Constitution**

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the State Constitution. Article XIII A, as amended, limits the amount of any ad valorem tax on real property to one percent of the full cash value thereof, except that additional ad valorem taxes may be levied to pay



debt service (i) on indebtedness approved by the voters prior to July 1, 1978, (ii) on bonded indebtedness approved by a two-thirds vote on or after July 1, 1978, for the acquisition or improvement of real property or (iii) bonded indebtedness incurred by a school district, community college district or county office of education for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities, approved by 55 percent of the voters voting on the proposition. Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value,’ or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster, and in other minor or technical ways.

### **Legislation Implementing Article XIII A**

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100 percent of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.



## **Article XIII B of the State Constitution**

In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual “appropriations limit” imposed by Article XIII B which effectively limits the amount of such revenues those entities are permitted to spend. Article XIII B, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to “proceeds of taxes,” which consist of tax revenues, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service.” “Proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds. Article XIII B also does not limit appropriation of local revenues to pay debt service on Bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in case of emergency; however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Proposition 111 requires that each agency’s actual appropriations be tested against its limit every two years.

If the aggregate “proceeds of taxes” for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency’s taxpayers through tax rate or fee reductions over the following two years.

The City has never exceeded its appropriations limit.

## **Articles XIII C and XIII D of the State Constitution**

*General.* On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 adds Articles XIII C and XIII D to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

On November 2, 2010, California voters approved Proposition 26, entitled the “Supermajority Vote to Pass New Taxes and Fees Act.” Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. The amendments to Article XIII C define “taxes” that are subject to voter approval as “any levy, charge, or exaction of any kind imposed by a local government,” with certain exceptions.



*Taxes.* Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City (“general taxes”) require a majority vote; taxes for specific purposes (“special taxes”), even if deposited in the City’s General Fund, require a two-thirds vote.

*Property-Related Fees and Charges.* Article XIII D also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs.

*Reduction or Repeal of Taxes, Assessments, Fees and Charges.* Article XIII C also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City’s General Fund. If such repeal or reduction occurs, the City’s ability to pay debt service on the 2022 Bonds could be adversely affected.

*Burden of Proof.* Article XIII C provides that local government “bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.” Similarly, Article XIII D provides that in “any legal action contesting the validity of a fee or charge, the burden shall be on the agency to demonstrate compliance” with Article XIII D.

*Judicial Interpretation of Proposition 218.* The interpretation and application of Articles XIII C and XIII D will ultimately be determined by the courts, and it is not possible at this time to predict with certainty the outcome of such determination.

## **Proposition 62**

Proposition 62 was adopted by the voters at the November 4, 1986, general election and (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the City be approved by a two-thirds vote of the governmental entity’s legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

California appellate court cases have overturned the provisions of Proposition 62 pertaining to the imposition of taxes for general government purposes. However, the California Supreme Court upheld Proposition 62 in its decision on August 28, 1995, in *Fresno County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62



were not addressed in the Supreme Court’s decision, such as what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities. The City has not experienced any substantive adverse financial impact as a result of the passage of this initiative.

### **Proposition 1A; Proposition 22**

*Proposition 1A.* Proposition 1A, proposed by the Legislature in connection with the State’s Fiscal Year 2004-05 Budget, approved by the voters in November 2004 and generally effective in Fiscal Year 2006-07, provided that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibited the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any Fiscal Year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county had to be approved by two-thirds of both houses of the Legislature.

*Proposition 22.* Proposition 22, entitled “The Local Taxpayer, Public Safety and Transportation Protection Act,” was approved by the voters of the State in November 2010. Proposition 22 eliminates or reduces the State’s authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

### **Proposition 19**

Proposition 19, entitled “Property Tax Transfers, Exemptions, and Revenue for Wildfire Agencies and Counties Amendment,” was approved by the voters of the State in November 2020. Proposition 19 amends Article XIII A to: (i) expand special rules that give property tax savings to homeowners that are over the age of 55, severely disabled, or whose property has been impacted by wildfire or natural disaster, when they buy a different home; (ii) narrow existing special rules for inherited properties; and (iii) dedicate most of the potential new State revenue generated from Proposition 19 toward fire protection.

The City cannot predict the impact that Proposition 19 might have on assessed values or property tax revenues in the City, or any other impacts on the local economy or the City’s financial condition.

### **Possible Future Initiatives**

Articles XIII A, XIII B, XIII C and XIII D and Propositions 62, 111, 218 and 1A were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City’s ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.



## LEGAL MATTERS

### Possible Limitations on Remedies; Bankruptcy

*General.* Following is a discussion of certain considerations relating to potential bankruptcies of school districts in California. It is not an exhaustive discussion of the potential application of bankruptcy law to the City. State law contains a number of safeguards to protect the financial solvency of school districts. See “APPENDIX B—CITY FINANCIAL INFORMATION.” If the safeguards are not successful in preventing a school district from becoming insolvent, the State Superintendent of Public Instruction (the “State Superintendent”), operating through an administrator appointed by the State Superintendent, may be authorized under State law to file a petition under Chapter 9 of the United States Bankruptcy Code (the “Bankruptcy Code”) on behalf of a district for the adjustment of its debts, assuming that such district meets certain other requirements contained in the Bankruptcy Code necessary for filing such a petition. School districts under current State law are not themselves authorized to file a bankruptcy proceeding, and they are not subject to involuntary bankruptcy.

Bankruptcy courts are courts of equity and as such have broad discretionary powers. If the City were to become the debtor in a proceeding under Chapter 9 of the Bankruptcy Code, the parties to the proceedings may be prohibited from taking any action to collect any amount from the City (including ad valorem tax revenues) or to enforce any obligation of the City, without the bankruptcy court’s permission. In such a proceeding, as part of its plan of adjustment in bankruptcy, the City may be able to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the 2022 Bonds and other transaction documents related to the 2022 Bonds, if the bankruptcy court were to determine that the alterations were fair and equitable. In addition, in such a proceeding, as part of such a plan, the City may be able to eliminate the obligation of the County to raise taxes if necessary, to pay the 2022 Bonds. There also may be other possible effects of a bankruptcy of the City that could result in delays or reductions in payments on the 2022 Bonds. Moreover, regardless of any specific adverse determinations in any City bankruptcy proceeding, a City bankruptcy proceeding could have an adverse effect on the liquidity and market price of the 2022 Bonds.

As stated above, if a school district were to go into bankruptcy, the bankruptcy petition would be filed under Chapter 9 of the Bankruptcy Code. Chapter 9 provides that it does not limit or impair the power of a state to control, by legislation or otherwise, a municipality of or in such state in the exercise of the political or governmental powers of such municipality, including expenditures for such exercise. For purposes of the language of Chapter 9, a school district is a municipality. State law provides that the ad valorem taxes levied to pay the principal and interest on the 2022 Bonds shall be used for the payment of principal and interest of the City’s general obligation bonds and for no other purpose. If this restriction on the expenditure of such ad valorem taxes is respected in a bankruptcy case, then the ad valorem tax revenue could not be used by the City for any purpose other than to make payments on the 2022 Bonds. It is possible, however, that a bankruptcy court could conclude that the restriction should not be respected.

*Statutory Lien.* Pursuant to Senate Bill 222 (2015) (“SB 222”) that became effective on January 1, 2016, all general obligation bonds issued by local agencies in California, including the 2022 Bonds, will be secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax. SB 222 provides that the lien will automatically arise, without the need for any action or authorization by the local agency or its governing board and will be valid and binding from the time the bonds are executed and delivered. Although a statutory lien would not be automatically terminated by the filing of a Chapter 9



bankruptcy petition by the City, the automatic stay provisions of the Bankruptcy Code would apply and payments that become due and owing on the 2022 Bonds during the pendency of the Chapter 9 proceeding could be delayed unless the 2022 Bonds are determined to be secured by a pledge of “special revenues” within the meaning of the Bankruptcy Code and the pledged ad valorem taxes are applied to pay the 2022 Bonds in a manner consistent with the Bankruptcy Code.

*Special Revenues.* If the ad valorem tax revenues that are pledged to the payment of the 2022 Bonds (see “THE 2022 BONDS – Security”) are determined to be “special revenues” within the meaning of the Bankruptcy Code, then the application in a manner consistent with the Bankruptcy Code of the pledged ad valorem revenues that are collected after the date of the bankruptcy filing should not be subject to the automatic stay. “Special revenues” are defined to include, among others, taxes specifically levied to finance one or more projects or systems of the debtor, but excluding receipts from general property, sales, or income taxes levied to finance the general purposes of the debtor. The City has specifically pledged the ad valorem taxes for payment of the 2022 Bonds. Additionally, the ad valorem taxes levied for payment of the 2022 Bonds are permitted under the State Constitution only where either (i) the applicable bond proposition is approved by 55% of the voters and such proposition contains a specific list of school facilities projects, or (ii) if the applicable bond proposition is approved by two-thirds of voters and such bonds must be issued for the acquisition or improvement of real property. Because State law prohibits the use of the tax proceeds for any purpose other than payment of the bonds and the bond proceeds can only be used to fund the acquisition or improvement of real property and other capital expenditures included in the proposition, such tax revenues appear to fit the definition of special revenues. However, there is no binding judicial precedent dealing with the treatment in bankruptcy proceedings of ad valorem tax revenues collected for the payments of bonds in California, so no assurance can be given that a bankruptcy court would not hold otherwise.

In addition, even if the ad valorem tax revenues are determined to be “special revenues,” the Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. Thus, a bankruptcy court could determine that the City is entitled to use the ad valorem tax revenues to pay necessary operating expenses of the City and its schools, before the remaining revenues are paid to the owners of the 2022 Bonds.

*Possession of Tax Revenues; Remedies.* If one or more of the County or the City go into bankruptcy and have possession of tax revenues (whether collected before or after commencement of the bankruptcy), and if the County or the City, as applicable, does not voluntarily pay such tax revenues to the owners of the 2022 Bonds, it is not clear what procedures the owners of the 2022 Bonds would take or how effective they would be in obtaining possession of such tax revenues.

*Opinion of Bond Counsel Qualified by Reference to Bankruptcy, Insolvency and Other Laws Relating to or Affecting Creditor’s Rights.* The proposed form of opinion of Bond Counsel, attached hereto as Appendix E, is qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditor’s rights.

## **Legal Opinions**

The proceedings in connection with the issuance of the 2022 Bonds are subject to the approval as to their legality of Jones Hall, A Professional Law Corporation, Bond Counsel for the City. Certain legal matters will also be passed upon for the City by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel. The fees of Bond Counsel and Disclosure Counsel are contingent upon the issuance and delivery of the 2022 Bonds.



## TAX MATTERS

### 2022A Bonds

*Federal Tax Status.* In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2022A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Tax Code”) that must be satisfied subsequent to the issuance of the 2022A Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the 2022A Bonds.

*Tax Treatment of Original Issue Discount and Premium.* If the initial offering price to the public at which a Refunding Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public at which a Refunding Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “bond premium” for purposes of federal income taxes and State of California personal income taxes.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Refunding Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2022A Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Refunding Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2022A Bonds who purchase the 2022A Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2022A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2022A Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering to the public at the first price at which a substantial amount of such 2022A Bonds is sold to the public.

Under the Tax Code, bond premium is amortized on an annual basis over the term of the Refunding Bond (said term being the shorter of the Refunding Bond’s maturity date or its call date). The amount of bond premium amortized each year reduces the adjusted basis of the owner of the Refunding Bond for purposes of determining taxable gain or loss upon disposition. The amount of bond premium on a Refunding Bond is amortized each year over the term to maturity of the Refunding Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations



between compounding dates). Amortized bond premium is not deductible for federal income tax purposes. Owners of premium 2022A Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such 2022A Bonds.

*California Tax Status.* In the further opinion of Bond Counsel, interest on the 2022A Bonds is exempt from California personal income taxes.

The complete text of the final opinion that Bond Counsel expects to deliver upon the issuance of the 2022A Bonds is set forth in APPENDIX E—FORM OF OPINION OF BOND COUNSEL.

## **2022B Bonds**

*Interest on the 2022B Bonds is not excludable from gross income of the owners thereof for federal income tax purposes.*

In the opinion of Bond Counsel, interest on the 2022B Bonds is exempt from California personal income taxes.

The complete text of the final opinion that Bond Counsel expects to deliver upon the issuance of the 2022B Bonds is set forth in APPENDIX E—FORM OF OPINION OF BOND COUNSEL.

## **Other Tax Considerations**

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the 2022A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the 2022A Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the 2022A Bonds, or as to the consequences of owning or receiving interest on the 2022A Bonds, as of any future date. Prospective purchasers of the 2022A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Owners of the 2022A Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2022A Bonds may have federal or state tax consequences other than as described above. Other than as expressly described above, Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the 2022A Bonds, the ownership, sale or disposition of the 2022A Bonds, or the amount, accrual or receipt of interest on the 2022A Bonds.



## **MUNICIPAL ADVISOR**

PFM Financial Advisors LLC, San Francisco, California (“PFM”), is an independent financial advisory firm registered as a “Municipal Advisor” with the Securities Exchange Commission and Municipal Securities Rulemaking Board. PFM does not underwrite, trade or distribute municipal or other public securities. PFM has assisted the City in connection with the planning, structuring, sale and issuance of the 2022 Bonds. PFM is not obligated to undertake, and has not undertaken to make, an independent verification of or to assume responsibilities for the accuracy, completeness or fairness of the information contained in this Official Statement not provided by PFM. The fees of PFM in respect to the 2022 Bonds are contingent upon their sale and delivery.

## **CONTINUING DISCLOSURE**

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”), the City has agreed, for the benefit of holders of the 2022 Bonds, to provide certain financial information and operating data relating to the City and the balances of funds relating to the 2022 Bonds, by not later than March 31 of each year commencing with the report for the 2021-22 fiscal year (the “Annual Information”), and to provide notices of the occurrence of certain enumerated events. The Annual Information and notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board (the “MSRB”), via its Electronic Municipal Market Access (“EMMA”) system. The nature of the information to be provided in the Annual Information and the notices of material events is set forth in APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

For fiscal year 2017-18 the City’s annual report was not properly associated on EMMA with all appropriate CUSIPs. Correcting EMMA filings have been made. Other than as noted, the City has made all required continuing disclosure filings required in the past five years. The City has established internal policies to ensure that all future required filings are made as required.

Substantially all of the City’s required financial information and operating data is included in its Annual Comprehensive Financial Report (the “ACFR”) which is historically filed in advance of the required March 31 deadline.

Any financial information and operating data not included in the Annual Comprehensive Financial Report is compiled by the City’s Treasury staff and its Assistant Administrative Services Director. The City has established a ticker system to provide staff with advance notice so that the reports are prepared in time to allow review and timely filing.

## **LEGALITY FOR INVESTMENT IN CALIFORNIA**

Under provisions of the California Financial Code, the 2022 Bonds are legal investments for commercial banks in California to the extent that the 2022 Bonds, in the informed opinion of the bank, are prudent for the investment of funds of depositors, and under provisions of the California Government Code, are eligible for security for deposits of public moneys in California.



### ABSENCE OF MATERIAL LITIGATION

No litigation is pending or threatened concerning the validity of the 2022 Bonds, and a certificate to that effect will be furnished by the City to the purchasers at the time of the original delivery of the 2022 Bonds. The City is not aware of any litigation pending or threatened questioning the political existence of the City or contesting the County's abilities to receive *ad valorem* taxes or contesting the City's ability to issue and retire the 2022 Bonds.

### RATING

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P") has assigned the rating of "\_\_\_\_" to the 2022 Bonds. Such rating reflects only the view of S&P and any desired explanation of the significance of such rating should be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period or that such rating will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price for the 2022 Bonds.

### UNDERWRITING

The 2022A Bonds were sold by competitive bidding on May 24, 2022, to \_\_\_\_\_ (the "2022A Underwriter"). The 2022A Underwriter has agreed to purchase the 2022A Bonds at a purchase price of \$\_\_\_\_\_ (being equal to the aggregate principal amount of the 2022A Bonds (\$\_\_\_\_\_), less an underwriter's discount of \$\_\_\_\_\_, plus a premium of \$\_\_\_\_\_). The 2022A Underwriter will purchase all of the 2022A Bonds if any are purchased, the obligation to make such purchase being subject to the approval of certain legal matters by counsel and certain other conditions. The 2022A Underwriter may offer and sell 2022A Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the 2022A Underwriter.

The 2022B Bonds were sold by competitive bidding on May 24, 2022, to \_\_\_\_\_ (the "2022B Underwriter" and, with the 2022A Underwriter, the "Underwriters"). The 2022B Underwriter has agreed to purchase the 2022B Bonds at a purchase price of \$\_\_\_\_\_ (being equal to the aggregate principal amount of the 2022B Bonds (\$\_\_\_\_\_), less an underwriter's discount of \$\_\_\_\_\_). The 2022B Underwriter will purchase all of the 2022B Bonds if any are purchased, the obligation to make such purchase being subject to the approval of certain legal matters by counsel and certain other conditions. The 2022B Underwriter may offer and sell 2022B Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the 2022B Underwriter.

### ADDITIONAL INFORMATION

Quotations from and summaries and explanations of the 2022 Bonds, the Resolution, the Continuing Disclosure Certificate of the City and the constitutional provisions, statutes and other



documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

All data contained herein has been taken or constructed from City records. Appropriate City officials, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. This Official Statement has been approved by the City Board.

### EXECUTION

Execution and delivery of this Official Statement have been duly authorized by the City.

CITY OF PALO ALTO

By \_\_\_\_\_  
Ed Shikada,  
*City Manager*



## APPENDIX A

### GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY

*The information in this Appendix A concerning the City of Palo Alto and Santa Clara County is included only for the purpose of supplying general information regarding the City and the County. The 2022 Bonds are secured solely by an ad valorem property tax levied by the County, on behalf of the City, in an amount sufficient to pay principal of and interest on the 2022 Bonds each year. The 2022 Bonds are not payable from any other funds or revenues.*

*Although reasonable efforts have been made to include up-to-date information in this Appendix A, some of the information is not current due to delays in reporting of information by various sources. It should not be assumed that the trends indicated by the following data would continue beyond the specific periods reflected herein.*

#### Introduction

*City of Palo Alto.* Palo Alto (the “City”) is located in northern Santa Clara County (the “County”), approximately 35 miles south of the City of San Francisco. It is part of the San Francisco Bay metropolitan area. The City is considered the birthplace of the high technology industry and a center of the Silicon Valley. Stanford University covers a 700-acre area in the City, and the City is home to high-tech leaders such as SAP America, Varian Medical Systems, VMware, Tibco Software, the Electric Power Research Institute, Communications and Power Industries and Skype. The City is also a major employment center, including U.S. Department of Veterans Affairs, Palo Alto Health Care System, Stanford Hospitals and Clinics, Lockheed Martin Missiles and Space, Palo Alto Medical Foundation, Stanford Shopping Center, the law offices of Wilson Sonsini Goodrich and Rosati, and the Xerox Palo Alto Research Center.

*Santa Clara County.* Located at the southern end of the San Francisco Bay, the County is the most populous county in the San Francisco Bay Area region, and one of the most affluent counties in the United States. The County was one of the original counties of California, formed in 1850 at the time of statehood. The County seat is San Jose, the tenth-most populous city in the United States. According to the U.S. Census Bureau, the county has a total area of 1,304 square miles (3,380 km<sup>2</sup>), of which 1,290 square miles (3,300 km<sup>2</sup>) is land and 14 square miles (36 km<sup>2</sup>) (1.1%) is water.

The highly urbanized Santa Clara Valley within the County is also known as Silicon Valley. The County is the headquarters for approximately 6500 high technology companies, including many of the largest tech companies in the world, among them hardware manufacturers AMD, Cisco Systems and Intel, computer and consumer electronics company Apple Inc. and internet companies eBay, Facebook, Google and Yahoo!



## Population

The table below summarizes population of the City, the County, and the State of California for the last five years.

**TABLE A1**  
**CITY OF PALO ALTO, SANTA CLARA COUNTY, and CALIFORNIA**  
**Population**

<u>Year</u>	<u>City of Palo Alto</u>	<u>Santa Clara County</u>	<u>State of California</u>
2017	68,679	1,937,008	39,352,398
2018	68,482	1,943,579	39,519,535
2019	68,272	1,944,733	39,605,361
2020	68,145	1,945,166	39,648,938
2021	67,657	1,934,171	39,466,855

Source: California Department of Finance, E-4 Population Estimate for Cities, Counties, and the State, 2011-21, with 2010 Census Benchmark.



## Employment

The following table summarizes historical employment and unemployment for the County, the State of California and the United States:

**TABLE A2**  
**SANTA CLARA COUNTY, CALIFORNIA, and UNITED STATES**  
**Civilian Labor Force, Employment, and Unemployment**  
**(Annual Averages)**

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate <sup>(1)</sup>
2016	Santa Clara County	1,026,500	987,900	38,600	3.8%
	California	19,102,700	18,065,000	1,037,700	5.4
	United States	159,187,000	151,436,000	7,751,000	4.9
2017	Santa Clara County	1,042,000	1,008,600	33,400	3.2
	California	19,312,000	18,393,100	918,900	4.8
	United States	160,320,000	153,337,000	6,982,000	4.4
2018	Santa Clara County	1,048,800	1,021,500	27,300	2.6
	California	19,398,200	18,582,800	815,400	4.2
	United States	162,075,000	155,761,000	6,314,000	3.9
2019	Santa Clara County	1,053,700	1,027,500	26,200	2.5
	California	19,411,600	18,627,400	784,200	4.0
	United States	163,539,000	157,538,000	6,001,000	3.7
2020 <sup>(2)</sup>	Santa Clara County	1,020,700	949,400	71,300	7.0
	California	18,821,200	16,913,100	1,908,100	10.1
	United States	160,742,000	147,795,000	12,947,000	8.1

Source: California Employment Development Department, Monthly Labor Force Data for Counties, Annual Average 2010-20, and US Department of Labor.

(1) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures available in this table.

(2) Latest available full-year data.



## Major Industries in the City and the County

The following tables list the ten largest employers in the City and in the County by employment in 2021.

**TABLE A3**  
**CITY OF PALO ALTO**  
**Top 10 Employers**  
**as of June 30, 2021**

Employer	Employees	% of Total City Employment
Stanford Health Care	5,500	4.1%
Hewlett-Packard Company	5,000	3.7
Stanford University	4,060	3.0
Veteran's Affairs Palo Alto Health Care System	3,900	2.9
Stanford Children's Health	3,500	2.6
VMware Inc.	3,500	2.6
SAP Labs Inc.	3,500	2.6
Varian Medical Systems	3,300	2.5
Tesla Inc.	2,650	2.0
Palo Alto Medical Foundation	2,200	1.6
Total Top 10	37,110	27.6

Source: City of Palo Alto FY2020-21 ACFR.

**TABLE A4**  
**SANTA CLARA COUNTY**  
**Top 10 Employers**  
**as of June 30, 2021**

Employer	Employees	% of Total County Employment
Apple Inc.	25,000	2.60%
Google LLC	25,000	2.60
Santa Clara County	20,638	2.15
Stanford University	15,314	1.59
Stanford Health Care	14,574	1.52
Tesla Motors Inc.	13,000	1.35
Cisco Systems Inc.	12,740	1.32
Kaiser Permanente	12,442	1.29
City of San Jose	7,641	.79
Intel Corporation	7,143	.74
Total Top 10	153,492	15.96

Source: Santa Clara County FY2020-21 ACFR.



## Construction Activity

The following tables reflect the five-year history of building permit valuation for the City and the County:

**TABLE A5**  
**CITY OF PALO ALTO**  
**Building Permits and Valuation**  
**(Dollars in Thousands)**

	2016	2017	2018	2019	2020 <sup>(1)</sup>
<u>Permit Valuation:</u>					
New Single-family	\$ 58,795	\$ 76,244	\$ 72,564	\$ 76,229	\$ 49,894
New Multi-family	5,764	9,262	-	-	31,725
Res. Alterations/Additions	36,423	70,538	33,568	14,563	6,001
Total Residential	100,983	156,046	106,133	90,792	87,621
Total Nonresidential	298,797	357,789	342,597	110,092	30,278
Total All Building	<u>399,780</u>	<u>513,835</u>	<u>448,731</u>	<u>200,884</u>	<u>117,900</u>
<u>New Dwelling Units:</u>					
Single Family	96	119	110	105	68
Multiple Family	30	28	-	-	8
Total	<u>126</u>	<u>147</u>	<u>110</u>	<u>105</u>	<u>76</u>

**TABLE A6**  
**SANTA CLARA COUNTY**  
**Building Permits and Valuation**  
**(Dollars in Thousands)**

	2016	2017	2018	2019	2020 <sup>(1)</sup>
<u>Permit Valuation:</u>					
New Single-family	\$ 660,301	\$ 732,652	\$ 728,590	\$ 693,032	\$ 465,531
New Multi-family	564,761	1,027,651	1,098,643	567,726	384,856
Res. Alterations/Additions	484,820	547,991	558,024	555,483	314,179
Total Residential	1,709,882	2,308,295	2,385,258	1,816,242	1,164,567
Total Nonresidential	4,698,158	3,359,316	4,132,146	5,447,642	2,816,509
Total All Building	<u>6,408,041</u>	<u>5,667,612</u>	<u>6,517,404</u>	<u>7,263,884</u>	<u>3,981,077</u>
<u>New Dwelling Units:</u>					
Single Family	1,608	2,022	2,011	1,814	1,329
Multiple Family	3,297	6,629	6,342	3,216	2,245
Total	<u>4,905</u>	<u>8,631</u>	<u>8,353</u>	<u>5,030</u>	<u>3,574</u>

Source: Construction Industry Research Board: "Building Permit Summary."

Note: Columns may not sum to totals due to independent rounding.

(1) Latest available full year data.

## Household Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of



wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the median household effective buying income for the City, the County, the State and the nation for the past five years.

**TABLE A7**  
**CITY OF PALO ALTO, SANTA CLARA COUNTY,**  
**STATE OF CALIFORNIA AND UNITED STATES**  
**Median Household Effective Buying Income**

	2017	2018	2019	2020	2021
City of Palo Alto	\$121,376	\$123,583	\$133,985	\$140,963	\$152,326
Santa Clara County	88,243	92,773	98,882	103,458	118,652
California	59,646	62,637	65,870	67,956	77,058
United States	50,735	52,841	55,303	56,790	64,448

Source: Nielsen, Inc.



## APPENDIX B

### CITY FINANCIAL INFORMATION

*The information in this appendix concerning the operations of the City and the City's finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of and interest on the 2022 Bonds is payable from the general fund of the City or from State revenues. The 2022 Bonds are payable solely from the proceeds of an ad valorem tax approved by the voters of the City pursuant to all applicable laws and State Constitutional requirements and required to be levied by the County on property within the City in an amount sufficient for the timely payment of principal and interest on the 2022 Bonds. See "SECURITY FOR THE 2022 BONDS" in the Official Statement.*

#### Financial Statements and Budgetary Process

The City's accounting policies conform to generally accepted accounting principles. The audited financial statements also conform to the principles and standards for public financial reporting established by the Governmental Accounting Standards Board.

*Basis of Accounting and Financial Statement Presentation.* The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

*Audited Financial Statements.* The City retained Macias Gini & O'Connell LLP, Walnut Creek, California (the "City's Auditor"), to examine the general purpose financial statements of the City as of and for the year ended June 30, 2021. The audited financial statements for fiscal year ended June 30, 2021, are included in APPENDIX B—ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2021. The City has not requested, and the City's Auditor has not provided, any review or update of such financial statements in connection with their inclusion in this Official Statement.

*Budget Process.* The City Council is required to adopt a final budget by no later than the close of its fiscal year. The annual budget serves as the foundation for the City's financial planning and control. Budget control is maintained at the fund and department level. The City Manager has the authority to approve appropriation transfers within the same department/fund. Transfers between funds/departments and amendments to the budget require City Council approval.

A comprehensive mid-year budget review is done in February or March to update revenue and expenditure projections. In addition, the City Council receives quarterly budget updates. The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated



budget approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) for the City's operating budget is at the fund/department level with departmental oversight of major expenditure categories as well as by program area within each fund. For the City's capital improvement budget each individual capital improvement project with budget transfers between subprojects is subject to City Manager approval and budget transfers between projects are subject to City Council approval. Appropriation increases, decreases or transfers between funds require the approval of the City Council.

All appropriations lapse at the end of the fiscal year unless specific carryovers are approved by the City Council.

Certain of the City's revenues are collected and dispersed by the State (such as sales tax and motor-vehicle license fees) or allocated in accordance with State law (most importantly, property taxes). Therefore, the State's budget decisions can have an impact on City finances.



## General Fund Balance Sheet

The following table shows the City's audited General Fund balance sheet for the past five fiscal years.

**TABLE B1**  
**CITY OF PALO ALTO**  
**GENERAL FUND**  
**BALANCE SHEET**  
**(Dollars in Thousands)**

	Fiscal Year Ended June 30,				
	2017	2018	2019	2020	2021
	Audited	Audited	Audited	Audited	Audited
<b>ASSETS</b>					
Cash and Investments	\$47,779	\$49,250	\$55,139	\$ 48,853	\$ 67,397
Accounts and Intergovernmental Receivables	17,418	18,881	21,669	11,944	14,053
Interest Receivable	738	950	1,167	695	645
Notes and Loans Receivable	496	479	-	845	826
Prepaid Items	-	-	-	-	291
Deposits	-	15	15	15	15
Due from other fund	-	-	843	1,895	943
Advance to Other Funds	2,915	3,128	3,115	3,233	3,036
Inventory of Materials and Supplies	4,298	4,427	4,517	4,874	5,208
<b>Total Assets</b>	<b>73,644</b>	<b>77,130</b>	<b>86,465</b>	<b>70,354</b>	<b>92,414</b>
<b>LIABILITIES</b>					
Accounts Payable and Accruals	4,984	4,293	6,501	3,581	5,115
Accrued Salaries and Benefits	1,466	1,525	1,562	2,046	2,254
Unearned Revenue	4,087	2,966	2,976	2,479	9,400
<b>Total Liabilities</b>	<b>10,537</b>	<b>8,784</b>	<b>11,039</b>	<b>8,106</b>	<b>16,769</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue	-	-	211	409	9
<b>FUND BALANCES</b>					
Nonspendable:					
Notes and Loans Receivable	496	479	-	845	826
Prepaid Items	-	-	-	-	291
Deposits	-	15	15	15	15
Inventories	4,298	4,427	4,517	4,874	5,208
Advances to Other Funds	2,915	3,128	3,115	3,233	3,036
Committed for:					
Development Services	-	373	4,399	3,804	3,950
Edgewood Plaza	-	-	-	-	701
Assigned for:					
Unrealized Gain on Investments	-	-	709	3,199	1,891
Other General Governmental Purposes	6,150	5,325	5,622	7,219	5,912
Electric charger	-	-	17	25	30
College Terrace fences	-	-	160	160	-
Reappropriations	1,130	1,773	1,149	1,893	4,687
Unassigned for:					
Budget Stabilization	48,118	52,826	54,811	35,871	49,089
<b>Total Fund Balances</b>	<b>63,107</b>	<b>68,346</b>	<b>75,215</b>	<b>61,839</b>	<b>75,636</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>73,644</b>	<b>77,130</b>	<b>86,465</b>	<b>70,354</b>	<b>92,414</b>

Source: City of Palo Alto 2017-21 ACFRs.



## General Fund Revenues, Expenditures, and Changes in Fund Balances

The following table shows the City's audited results for General Fund revenues and expenditures for Fiscal Years 2017-18 through 2020-21 and budgeted projections for Fiscal Year 2021-22.

**TABLE B2**  
**CITY OF PALO ALTO**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**(Dollars in Thousands)**

	Fiscal Year Ending June 30,				
	2018 Audited	2019 Audited	2020 Audited	2021 Audited	2022 Budget
<b>REVENUES</b>					
Property Tax	\$ 42,839	\$ 47,327	\$ 51,089	\$ 56,572	\$ 51,228
Sales Tax	31,091	36,508	30,563	29,127	28,184
Utility Users Tax	15,414	16,402	16,140	14,642	14,370
Transient Occupancy Tax	24,937	25,649	18,553	5,179	8,428
Documentary Transfer Tax	9,229	6,923	6,903	10,627	7,137
Other Taxes and Fines	2,141	1,888	1,172	683	1,434
Charges for Services	26,824	27,346	24,127	25,105	23,870
Intergovernmental	3,205	2,863	3,783	3,828	22,686
Permits and Licenses	8,560	8,410	7,467	7,261	8,406
Investment Earnings	(828)	5,672	4,037	(161)	852
Rental Income	15,896	16,338	15,964	13,293	14,476
Other Revenue	776	1,753	587	632	2,260
<b>Total Revenues</b>	<b>180,084</b>	<b>197,079</b>	<b>180,385</b>	<b>166,788</b>	<b>183,331</b>
<b>EXPENDITURES</b>					
City Council	337	265	214	224	433
City Manager	2,509	2,883	3,273	2,304	3,319
City Attorney	2,244	2,649	2,509	2,149	3,945
City Clerk	819	805	815	748	1,327
City Auditor	870	865	680	645	972
Administrative Services	5,347	5,512	5,960	5,202	8,923
Human Relations	2,369	2,567	2,792	2,421	3,921
Public Works	14,569	13,757	13,577	13,265	18,785
Planning and Community Environment	8,312	8,132	19,269 <sup>(1)</sup>	15,830 <sup>(1)</sup>	17,673
Development Services	11,749	11,549	— <sup>(1)</sup>	— <sup>(1)</sup>	— <sup>(1)</sup>
Office of Transportation	—	—	2,052	1,936	1,747
Police	40,326	42,854	45,679	41,328	43,115
Fire	33,522	33,489	36,440	34,918	36,914
Community Services	27,122	28,903	29,603	26,254	31,052
Library	9,120	9,288	9,988	8,528	8,903
Non-Departmental	5,973	11,769	9,255	4,599	13,478
Capital Outlay	—	—	—	—	—
Debt Service - Principal	416	426	—	—	—
Debt Service - Interest	16	5	—	—	—
<b>Total Expenditures</b>	<b>165,620</b>	<b>175,718</b>	<b>182,106</b>	<b>160,351</b>	<b>194,507</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>14,464</b>	<b>21,361</b>	<b>(1,721)</b>	<b>6,437</b>	<b>(11,176)</b>
<b>OTHER FINANCING SOURCES</b>					
Proceeds from Sale of Capital Assets	—	2,442	—	100	—
Transfers In	20,310	20,154	20,568	20,880	23,121
Transfers Out	(29,535)	(37,088)	(32,223)	(13,620)	(14,702)
<b>Total Other Financing Sources</b>	<b>(9,225)</b>	<b>(14,492)</b>	<b>(11,655)</b>	<b>7,360</b>	<b>8,419</b>
<b>Change in Fund Balances</b>	<b>5,239</b>	<b>6,869</b>	<b>(13,376)</b>	<b>13,797</b>	<b>(2,757)</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>63,107</b>	<b>68,346</b>	<b>75,215</b>	<b>61,839</b>	<b>75,636</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>68,346</b>	<b>75,215</b>	<b>61,839</b>	<b>75,636</b>	<b>72,879</b>

Source: City of Palo Alto 2018-21 ACFRs and City of Palo Alto Finance Department.

(1) Planning and Community Environment and Development Services totals are combined in FY2019-20 and future years.



### **Reductions in General Fund Revenues and Expenditures in FY2019-20 and FY2020-21 due to the COVID-19 Pandemic**

The City's general fund revenues for sales taxes, utility users taxes, rental income and transient occupancy taxes in fiscal years 2019-20 and 2020-21 fell below historical expectations due to the unanticipated and severe disruptions caused by the COVID-19 Pandemic. The City's fiscal year 2020-21 results reflect the one full year of the economic impacts of the COVID-19 Pandemic including the stark, immediate results stemming from shelter in place orders.

The City's expenditures for the 2019-20 and 2020-21 fiscal years reflect certain temporary and permanent reductions in expenses to offset the revenue losses, including staffing reductions, reductions in service/operating hours/programs at City owned facilities, and labor and bargaining unit concessions. All City General Fund department functional expenses decreased except for Public Works which increased due to various repairs and maintenance of capital assets such as streets, sidewalks, facilities, and parks all of which are non-capitalizable and Administrative Services mainly due to the expenses incurred for claims related to a class action lawsuit. For additional discussion, see "Principal Sources of General Fund Revenues," "Sales and Use Taxes", and "Transient Occupancy Taxes" herein.



## General Fund Budget to Actuals Comparison

The following table shows the City's General Fund adopted budget figures and a comparison of the final General Fund budgets versus audited actuals for Fiscal Year 2019-20 and Fiscal Year 2020-21.

**TABLE B3**  
**CITY OF PALO ALTO**  
**GENERAL FUND**  
**BUDGET COMPARISON**  
**Fiscal Years 2019-20 and 2020-21**  
**(Dollars in Thousands)**

	Fiscal Year Ending June 30, 2020			Fiscal Year Ending June 30, 2021		
	Adopted Budget	Final Budget	Audited Actuals	Adopted Budget	Final Budget	Audited Actuals
<b>REVENUES</b>						
Sales Tax	\$ 34,346	\$ 30,617	\$ 30,563	20,500	25,030	29,127
Property Tax	48,634	50,853	51,089	52,000	53,173	56,572
Transient Occupancy Tax	29,309	19,425	18,553	14,900	5,123	5,179
Documentary Transfer Tax	8,369	6,676	6,903	4,700	6,875	10,627
Utility User Tax	17,581	16,133	16,140	15,100	14,080	14,642
Other Taxes and Fines	2,032	1,237	1,172	1,925	392	683
Charges for Services	30,127	25,196	24,127	25,984	24,414	25,105
Permits and Licenses	8,667	6,597	7,467	7,770	8,366	7,708
Investment Earnings	1,433	1,433	1,558	1,145	1,145	1,062
Rental Income	16,326	16,041	15,964	15,949	15,331	13,293
Intergovernmental	2,756	3,245	4,301	2,448	4,580	4,222
Other Revenue	587	619	587	674	666	732
Charges to other funds and departments	10,908	10,908	11,099	11,992	11,992	11,661
Prior year encumbrances	-	6,469	6,469	-	7,570	7,570
Total Revenues	211,075	195,449	195,992	175,087	178,737	188,183
<b>EXPENDITURES</b>						
City Attorney	3,387	3,896	3,789	3,485	3,744	3,589
City Auditor	1,235	1,157	981	828	981	962
City Clerk	1,346	1,402	1,186	1,245	1,293	1,147
City Council	498	542	414	419	509	366
City Manager	4,546	4,734	4,671	3,161	3,562	3,492
Administrative Services	8,519	8,770	8,515	8,362	8,338	7,897
Community Services	30,929	31,591	31,489	28,379	28,839	27,769
Police	46,369	46,845	46,844	41,733	42,441	42,441
Fire	34,889	36,773	36,772	33,607	35,354	35,354
Human Resources	3,902	4,107	3,994	3,554	3,622	3,545
Library	10,314	10,187	10,092	8,421	8,655	8,636
Planning and Community Environment	20,356	22,021	21,098	17,386	19,611	18,782
Public Works	19,142	19,341	18,932	18,397	19,089	18,553
Non-Departmental	9,028	12,312	10,156	8,237	9,332	9,259
Total Expenditures	196,772	206,411	201,293	179,118	187,509	183,802
EXCESS OF REVENUES OVER EXPENDITURES	14,303	(10,962)	(5,301)	(4,031)	(8,772)	4,381
<b>OTHER FINANCING SOURCES</b>						
Transfers In	20,999	20,842	20,568	21,359	21,154	21,154
Transfers Out	(33,985)	(32,223)	(32,223)	(17,801)	(13,620)	(13,620)
Total Other Financing Sources	(12,986)	(11,381)	(11,655)	3,558	7,534	7,534
Change in Fund Balances, Budgetary Basis	1,317	(22,343)	(16,956)	(473)	(1,238)	11,915
Change in Fund Balances, GAAP Basis			(13,376) <sup>(1)</sup>			13,797 <sup>(2)</sup>
FUND BALANCES, BEGINNING OF YEAR, GAAP Basis			75,215			61,839
FUND BALANCES, END OF YEAR, GAAP Basis			61,839			75,636

Source: City of Palo Alto 2020-21 ACFRs.

- (1) Reflects adjustments for an unrealized gain of \$2,479, current year encumbrances and reappropriations of \$7,570 and prior year encumbrances and reappropriations of \$(6,469).
- (2) Reflects adjustments for an unrealized loss of \$(1,297), changes in interfund balances of \$(197), current year encumbrances and reappropriations of \$10,946 and prior year encumbrances and reappropriations of \$(7,570).



## City Financial Management

The City Council has adopted a comprehensive set of financial management policies to provide for: (i) establishing targeted general fund reserves; (ii) the prudent investment of City funds, and (iii) management of debt. The City's practice is to incur debt only after deliberation over the effect of such debt on the City's General Fund and other resources of the City, and in those circumstances where the use of debt would be appropriate to the scale and economic life of the asset being financed and the accumulation or availability of reserves to fund the capital requirement.

*General Fund Budget Stabilization Reserve Policy.* The following table shows the City's general fund Budget Stabilization Reserve Policy guidance, actual reserves for fiscal year 2020-21 and budgeted reserve for fiscal year 2021-22.

### CITY OF PALO ALTO GENERAL FUND BUDGET STABILIZATION RESERVE POLICY

	Policy Guidance	Actual FY 2020-21	Budgeted FY 2021-22
% of Expenses	15% to 20%; target goal of 18.5%	23.5%	17.2%

Source: City of Palo Alto Finance Department.

During the 2019-20 fiscal year, the City drew \$11.7 million from its Budget Stabilization Reserve (BSR) to mitigate service reductions as a result of revenue losses associated with the Covid-19 pandemic, bringing the remaining balance of the BSR to approximately \$35.9 million as of June 30, 2020. During the 2020-21 fiscal year the City increased the BSR by \$13.2 million through a combination of excess revenue above budgeted levels and expenditure savings, bringing the BSR balance to approximately \$49.1 million as of June 30, 2021.

The City's adopted fiscal year 2021-22 budget relied on the use of \$1.8 million from the BSR. The City's fiscal year 2021-22 adopted budget reduced the BSR to \$36.0 million or 17.2% of the adopted budget. This is within the targeted range of 15% to 20% but below the City Council goal of 18.5%. Since the budget adoption, the fiscal year 2021-22 BSR has been updated to reflect the final fiscal year 2020-21 BSR. The BSR is currently at \$40.7 million or 19.4% of the adopted budget. As discussed in the fiscal year 2023-32 Long Range Financial Forecast, major general fund tax revenues are anticipated to be higher than budgeted levels in fiscal year 2021-22. Based on actual receipts for the first half of the fiscal year and projections for the remainder of the 2021-22 fiscal year, major tax revenues are anticipated to be \$15 million over the adopted budget. Staff will return to the City Council as part of the fiscal year 2022-23 budget development process to discuss use of these funds.

*Investment Policy.* The investment of funds of the City (except pension and retirement funds) is made in accordance with the City's Investment Policy, most recently approved in June 2021 (the "Investment Policy"), and section 53601 *et seq.* of the California Government Code. The Investment Policy is subject to revision at any time and is reviewed at least annually to ensure compliance with the stated objectives of safety, liquidity, yield, and current laws and financial trends. All amounts held under the Resolution are invested at the direction of the City in Investment Securities, as defined in the Resolution, and are subject to certain limitations contained therein. See APPENDIX C—INVESTMENT POLICY OF THE CITY and APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—TRUST AGREEMENT—Investments.



*Debt Management Policy.* In accordance with section 8855(i) of the California Government Code the City adopted a debt management policy on April 11, 2017, to establish conditions for the use of debt; to ensure that debt capacity and affordability are adequately considered; to minimize the City's interest and issuance costs; to maintain the highest possible credit rating; to provide complete financial disclosure and reporting; and to maintain financial flexibility for the City.

*Capital Improvement Project Practices.* While the City does not have an adopted capital improvement project policy, it does have certain criteria that must be adhered to before commencing a capital improvement project including (a) that the project must have a minimum cost of \$50,000 for each stand-alone unit or combined project, (b) that the project must have a useful life of at least five to seven years, and (c) that the project must extend the life of an existing asset or provide a new functional use for an existing asset for at least five years.

### Principal Sources of General Fund Revenues

The City relies on several sources to balance its General Fund budget. The most important of these revenue sources (based on percentage of the total revenue budget) are taxes and fees including the following: property taxes, sales taxes, and transient occupancy taxes.

The following table shows the City's General Fund tax revenues by source for the four most recent fiscal years and budgeted projections for Fiscal Year 2021-22:

**TABLE B4**  
**CITY OF PALO ALTO**  
**GENERAL FUND TAX REVENUES BY SOURCE**  
**(Dollars in Thousands)**

	Fiscal Year Ending June 30,				
	2018	2019	2020	2021	2022
	Audited	Audited	Audited	Audited	Budgeted
Property Tax	\$ 42,839	\$ 47,327	\$ 51,089	\$ 56,572	\$ 51,228
Sales Tax	31,091	36,508	30,563	29,127	28,184
Transient Occupancy Tax	24,937	25,649	18,553	5,179	8,428
Utility User Tax	15,414	16,402	16,140	14,642	14,370
Documentary Transfer Tax	9,229	6,923	6,903	10,627	7,137
Other Taxes and Fines	2,141	1,888	1,172	683	1,434
Total Tax Revenues	<u>125,651</u>	<u>134,697</u>	<u>124,420</u>	<u>116,830</u>	<u>\$110,781</u>

Source: City of Palo Alto 2028-21 ACFRs and City of Palo Alto Finance Department.

In Fiscal Year 2019-20, the City's General Fund tax revenues accounted for approximately \$124.4 million or 69% of the City's total General Fund revenues for Fiscal Year 2019-20. In Fiscal Year 2020-21, the City's General Fund tax revenues accounted for approximately \$116.8 million or 70% of the total General Fund revenue for Fiscal Year 2020-21. General Fund tax revenues are projected to account for approximately \$110.8 million or 60.4% of the City's total General Fund revenue budget for Fiscal Year 2021-22.

*Property Taxes.* The County levies a tax of 1% on the assessed valuation of property within the County. The City receives approximately a 9.4% share of this 1% levy for property located within the City



limits. In Fiscal Year 2019-20 property taxes generated approximately \$51.1 million in General Fund revenues. In Fiscal Year 2020-21 property taxes generated approximately \$56.5 million in General Fund revenues. Property tax revenues are budgeted to be \$51.2 million, the adjusted budget is \$53.2 million and projected to generate millions more in Fiscal Year 2021-22 in General Fund revenues. Property taxes are the General Fund's largest revenue source. Property Tax revenues for Fiscal Year 2019-20 and 2020-21 have not been materially impacted by impacted by the COVID-19 Pandemic.

*Sales and Use Taxes.* The City receives a 1% share of all taxable sales generated within its borders. In Fiscal Year 2019-20 sales and use taxes generated approximately \$30.1 million in General Fund revenues. In Fiscal Year 2020-21 sales and use taxes generated approximately \$29.1 million in General Fund revenues. Sales and use taxes are budgeted to be \$28.2 million, however, due to better than expected economic recovery is projected to generate millions more in Fiscal Year 2021-22 in General Fund revenues. Sales and use taxes are the General Fund's second largest revenue source. Sales and Use Tax revenues for Fiscal Years 2019-20 and 2020-21 were impacted by the COVID-19 Pandemic, primarily in lower revenues generated by high end in-person retail sales and by eating and drinking establishments. For additional discussion, see "Sales and Use Taxes."

*Transient Occupancy Taxes.* The City imposes a transient occupancy tax on all hotels in the City. The current rate is 15.5% of the rent charged. In Fiscal Year 2019-20 transient occupancy taxes generated approximately \$18.5 million in General Fund revenues. In Fiscal Year 2020-21 transient occupancy taxes generated approximately \$5.2 million in General Fund revenues. Transient occupancy taxes are budgeted at \$8.4 million but based on receipts for the first half of the fiscal year is projected to generate millions more in Fiscal Year 2021-22 in General Fund revenues. Transient Occupancy Tax revenues for Fiscal Years 2019-20 and 2020-21 have been the City's most impacted General Fund revenue source from the effects of the COVID-19 Pandemic and fall substantially below historical norms. Due to the lifting of public health restrictions and to improvements in public health including decreasing hospitalizations and mortality rate, the City expects Transient Occupancy Taxes for fiscal year 2021-22 and future years to revert to historical norms. For additional discussion, see "Transient Occupancy Tax."

## **Sales and Use Taxes**

A sales tax is imposed on the privilege of consuming personal property in the State. The State does not tax services. The tax rate is established by the State Legislature, and is presently 7.25%, statewide (of which 1% is paid to the City) (the "State Sales Tax"). In addition, many of the State's cities, counties, districts and communities have special taxing jurisdiction to impose a transaction (sales) or use tax. These so-called district taxes increase the tax rate in a particular area by adding the local option tax to the statewide tax. While more than one district tax may be in effect for a particular location, counties, municipalities, and districts are allowed to increase the sales tax in specific jurisdictions up to a total of 10.25%.

The State's Department of Tax and Fee Administration actual administrative costs with respect to the portion of sales taxes allocable to the City are deducted before distribution and are determined on a quarterly basis.

The following table shows a breakdown of the composition of the current sales and use tax rate applicable to transactions in the City:



**TABLE B5  
CITY OF PALO ALTO  
CURRENT SALES AND USE TAX RATES**

Component	Tax Rate
State General Fund	5.75%
State Local Public Safety Fund	0.50
City General Fund	1.00
County Transportation	1.88
Total	9.13%

Source: City of Palo Alto

The State's Department of Tax and Fee Administration actual administrative costs with respect to the portion of sales taxes allocable to the City are deducted before distribution and are determined on a quarterly basis.

Many categories of transactions are exempt for the State Sales Tax. The most important of these exemptions are the sales of food products for home consumption, prescription medicine, edible livestock and their feed, seed and fertilizer used in raising food for human consumption, and gas and electricity and water when delivered to consumers through mains, lines and pipes. In addition, occasional sales (i.e., sales of property not held or used by a seller in the course of activities for which he or she is required to hold a seller's permit) are generally exempt from both the State Sales Tax; however, the occasional sales exemption does not apply to the sale of an entire business and other sales of machinery and equipment used in a business.

Action by the State Legislature or by voter initiative could change the transactions and items upon which the State Sales Tax are imposed. Such changes or amendments could have either an adverse or beneficial effect on revenues produced by sales taxes. The City is not currently aware of any proposed legislative change that would have a material adverse effect on the State Sales Tax.

*Effects of COVID-19 Pandemic on Sales Tax Collections.* The City's sales tax receipts for Fiscal Years 2019-20 and 2020-21 have been impacted and may continue be impacted by the short and long-term effects of the COVID-19 Pandemic. During the COVID-19 Pandemic the City has experienced significant declines of in-person sales of high-end retail goods and declines in dining options at eating and drinking establishments, such as the stores and restaurants located at the Stanford Shopping Center. These declines have been partially offset by the strong performance in the business-to-business segment and in sales tax revenues from online sales. The City expects Sales and Use Tax Revenues to improve as the COVID-19 Pandemic wanes.

### **Transient Occupancy Taxes**

The City levies a 15.5% tax on hotels and lodging establishments. The 15.5% transient occupancy tax level became effective on April 1, 2019 following the approval of an increase by 68% of the voters of the City voting in the November 6, 2018 election. Prior to April 1, 2019 the transient occupancy tax rate was 14% following an adjustment in 2014 when it was raised from 12%. The City's transient occupancy tax is a general tax and can be used for any governmental purpose.



The City's historical transient occupancy tax revenue since fiscal year 2010-11 is shown in the following table.

**TABLE B6**  
**CITY OF PALO ALTO**  
**HISTORICAL TRANSIENT OCCUPANCY TAX REVENUES**  
**(Dollars in Thousands)**

Fiscal Year	Transient Occupancy Tax Revenues
2010-11	\$ 8,082
2011-12	9,664
2012-13	10,794
2013-14	12,255
2014-15	16,699
2015-16	22,366
2016-17	23,477
2017-18	24,937
2018-19	25,649
2019-20	18,553
2020-21	5,179
2021-22 <sup>(1)</sup>	8,484

Source: Palo Alto Finance Department

(1) Budgeted Projection, for discussion, see *Effects of COVID-19 Pandemic on Transient Occupancy Tax Revenues*.

*Effects of COVID-19 Pandemic on Transient Occupancy Tax Revenues.* Transient occupancy taxes are the City's most impacted General Fund revenue source from the result of closures and reduced travel caused by the COVID-19 Pandemic. The City's collections of transient occupancy tax revenues are down substantially in fiscal year 2019-20 and fiscal year 2020-21 as compared to historical levels. Six hotels within the City, representing approximately 16.3 percent of available rooms remained closed for the City's entire 2020-21 fiscal year, while two other smaller hotels reopened partway through the City's 2020-21 fiscal year. The hotels that remained open experienced significant declines in average daily room and occupancy rates in the first three quarters of fiscal year 2020-21 and partially recovered during the fourth quarter. During fiscal year 2020-21 the average occupancy rate in the City was 40.6 percent, a 33.4 percent decrease from fiscal year 2019-20 and the average room rate was \$116.90, a 55.9 percent decrease from fiscal year 2019-20.

In response to the severe decrease in transient occupancy tax revenues, the City instituted a number of cuts to its General Fund expenditures in fiscal years 2019-20 and 2020-21. For additional discussion, see "Reductions in General Fund Revenues and Expenditures in FY2019-20 and FY2020-21 due to the COVID-19 Pandemic."

As the COVID-19 Pandemic wanes, the City expects revenues from transient occupancy taxes to revert towards historical norms. Additionally, two new Marriott hotels (with a combined total of 293 rooms) have recently opened during 2021.

For additional information about the status of the COVID-19 Pandemic and the state's reopening process, see "RISK FACTORS—COVID-19 Pandemic."



## Other Sources of General Fund Revenues

In addition, the City receives the following General Fund revenues:

*Licenses and Permits.* The City charges certain permits, licenses and fees for the cost recovery of providing current planning, building inspection, recreation and other municipal services.

*Charges for Services.* The City charges various fees and charges for services provided, including development and inspection fees, paramedic fees, charges for public works, police, fire, library and parks and recreation services. By law, the City may not charge more than the cost of providing the service.

*Fines, Forfeitures and Penalties.* These revenues include parking citations and other fines for municipal code violations.

The following table illustrates other revenue sources for the four most recent fiscal years and the budgeted data for the current fiscal year:

**TABLE B7  
CITY OF PALO ALTO  
OTHER REVENUE SOURCES**

	Fiscal Year Ending June 30,				
	2018	2019	2020	2021	2022
	Audited	Audited	Audited	Audited	Budgeted
Charges for Services	\$ 26,824	\$ 27,346	\$ 24,127	\$ 25,105	\$23,870
Rental Income	15,896	16,338	15,964	13,293	14,476
From Other Agencies	3,205	2,863	3,783	3,828	8,521
Permits and Licenses	8,560	8,410	7,467	7,261	8,406
Investment Earnings <sup>(1)</sup>	(828)	5,672	4,037	(161)	852
Other Income	776	1,753	587	632	2,260
Total Other Revenues	<u>54,433</u>	<u>62,382</u>	<u>55,965</u>	<u>49,958</u>	<u>\$58,385</u>

Source: City of Palo Alto Finance Department.

(1) Net of actual interest earnings and unrealized (paper) gain and loss.

*Impact of COVID-19 Pandemic on Other Revenue Sources.* Fiscal Years 2019-20 and 2020-21 revenues from charges for services and rental income were reduced as compared to prior years. The City closed or reduced operations at many of its Park & Recreation and Library facilities and has cancelled some of its programs in fiscal years 2019-20 and 2020-21 and began re-instate these programs and classes as conditions related to the COVID-19 Pandemic improved. Charges for services revenues were also offset by increased revenues generated from the City's golf course. Tenants not paying their monthly lease and rent payments because of COVID-19 Pandemic have negatively affected the City's rental income revenues. The City expects these revenues sources to return to historical norms as the COVID-19 Pandemic improves.

## Reliance on State Budget

The City does not rely on the State for a material amount of revenues.

Continued economic uncertainty caused by the COVID-19 outbreak will significantly affect the State's fiscal outlook, including lower capital gains-related tax revenue due to the volatility in the financial



markets, the likelihood that a recession is forthcoming due to pullback in activity across wide swaths of the economy, and substantially increased expenditures related to fighting the COVID-19 Pandemic. The City cannot predict the short or long-term impacts that the COVID-19 Pandemic will have on global, State-wide and local economies, which may impact City operations and local property values.

There can be no assurance that future State budget difficulties will not adversely affect the City's revenues or its ability to pay debt service on the 2022 Bonds.

## Labor Relations

Most full-time City employees are represented by two labor union associations, the principal one being the SEIU, which represents approximately 50% of all City employees. Approximately 80% of all permanent City employees are covered by negotiated agreements with management, confidential, and city attorney employees being unrepresented. The City has never had an employee work stoppage. Negotiated agreements have the following expiration dates:

**TABLE B8  
CITY OF PALO ALTO  
NEGOTIATED EMPLOYEE AGREEMENTS**

Bargaining Unit	Contract Expiration Date	Number of Employees
International Association of Firefighters (IAFF)	June 30, 2022	88
Fire Chiefs' Association (FCA)	June 30, 2022	4
Palo Alto Peace Officers Association (PAPOA)	June 30, 2022	83
Palo Alto Police Managers Association (PAPMA)	June 30, 2022	7
Service Employees International Union (SEIU)	December 31, 2021	573
Service Employees International Union Hourly Unit (SEIU-H)	June 30, 2021	65
Utilities Management Professional Association of Palo Alto (UMPAPA)	June 30, 2020	49
Management and Professional Personnel and Council Appointees Compensation Plan	June 30, 2021	220
Limited Hourly Employees Compensation Plan	June 30, 2021	40
Total		<u>1,147</u>

Source: City of Palo Alto

## 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. The City retains the risk for the first \$750,000 in losses for each accident and employee under this policy.

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

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



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

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

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

During the year ended June 30, 2021, the City paid \$2.1 million to ACCEL for current year coverage.

*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.

During fiscal year 2020-21 the City recorded claims payable of \$12.6 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.

The City has not incurred a claim that has exceeded its insurance coverage limits in any of the last three years, however there has been a significant reduction in insurance coverage. California municipalities’ liability claim costs have significantly increased all cities’ costs, and have caused insurance underwriters to pull back from the California insurance market. California is faced with continuing negative claims trends driven by (1) dangerous condition claims involving significant medical damages, (2) changing laws involving sexual misconduct, and (3) costly law enforcement liability claims. Settlements and verdicts for these losses have rapidly inflated in cost resulting in the reduction of insurance for California public entities.

For additional information about the City’s Risk Management, see APPENDIX B—ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2021, Note 14.

## **Joint Ventures**

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, 2021, the City incurred expenses totaling \$92.1 million for purchased power and assessments earned by NCPA.

The City's interest in NCPA projects and reserves, as computed by NCPA, was \$8.1 million at June 30, 2021. This amount represents the City's portion of funds, which resulted from the settlement with third parties of issues with financial consequences and reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employees' post-retirement medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion, which will require funding to cover debt service and operational costs more than the expected value of the electric power. The General Operating Reserve is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. 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.

*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, 2021, the book value of this Project's plant, equipment and other assets was \$303.8 million, while its long-term debt totaled \$255.8 million and other liabilities totaled \$44.5 million. The City's share of the Project's long-term debt amounted to \$58.6 million at that date.



*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’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 between the Cities of Palo Alto and Roseville. These two agencies desired to “layoff” their entitlement rights to the California-Oregon Transmission Project (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.

*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 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 water supply contract. During the 2020-21 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.

## **Employee Retirement Plans**

*The information set forth below regarding the California Public Employees’ Retirement System (“CalPERS”) program, other than the information provided by the City regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not be construed as a representation by either the City or the Purchasers.*

*Plan Description.* Substantially all permanent employees are eligible to participate in the City’s Safety Plan (police and fire) and Miscellaneous Plan (all others), agent multiple employer defined benefit pension plans administered by the CalPERS, which acts as a common investment and administrative agent for its participating member employers. Benefit 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 regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

*Benefits Provided.* CalPERS provides service 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. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.



*Employees Covered.* At June 30, 2021, the following employees were covered by the benefit terms for each Plan.

**TABLE B9  
CITY OF PALO ALTO  
COVERED EMPLOYEES**

	Miscellaneous	Safety
Inactive employees or beneficiaries currently receiving benefits	1,223	435
Inactive employees entitled to but not yet receiving benefits	835	104
Active employees	777	174
Total	2,835	713

Source: City of Palo Alto 2020-21 ACFR.

*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 both 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.

The City's contributions to its Miscellaneous and Safety Plans for the past four years is summarized in the following table.

**TABLE B10  
CITY OF PALO ALTO  
HISTORICAL PENSION CONTRIBUTIONS  
(Dollars in Thousands)**

Fiscal Year Ending June 30,	Miscellaneous Plan	Safety Plans	Total Contributions
2017	\$ 20,638	\$ 10,220	\$ 30,858
2018	23,342	11,030	34,372
2019	25,423	12,370	37,793
2020	28,889	14,297	43,186
2021	32,782	14,796	47,578

Source: City of Palo Alto 2017-21 ACFRs.

*Section 115 Trust.* In April 2017, the City established a Section 115 irrevocable trust with the Public Agency Retirement Services ("PARS"). The City Council of the City approved an initial deposit of \$2.1 million in General Fund proceeds into the General Fund subaccount of the City's PARS Trust Account. The Trust Account allows more control and flexibility in investment allocations compared to City's portfolio which is restricted by State regulations to fixed income instruments. The City proactively contributes to the Section 115 irrevocable trust amounts reflective of what retirement costs would be if the normal cost of contributions was budgeted at a 6.2% discount rate. The City contributed \$5.0 million to the



PARS Trust during the 2020-21 fiscal year. As of June 30, 2021, the City reported the account balance of \$37.1 million as restricted investments in its General Benefits Internal Service Fund.

*Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions.* For the year ended June 30, 2021, the City recognized pension expense of \$34.7 million for the Miscellaneous Plan and \$25.7 million for the Safety Plans, respectively. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**TABLE B11**  
**CITY OF PALO ALTO**  
**DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**  
**FISCAL YEAR 2020-21**  
**(Dollars in Thousands)**

	Miscellaneous		Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions after measurement date	\$ 32,782	\$ -	\$ 14,796	\$ -
Diff. btw. actual and expected experience	5,051	-	5,157	-
Changes in assumptions	-	-	-	-
Diff. btw. projected and actual earnings on investment	3,887	-	1,977	-
Total	41,720	-	21,930	-

Source: City of Palo Alto 2020-21 ACFR.

For information concerning the City's pension obligations, including descriptions of the actuarial methods and assumptions, and an explanation of the discount rate used, please see APPENDIX B—ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2021, Note 11.

*Funded Status.* The following table sets forth a summary of the funding progress for the City's Miscellaneous and Safety Plans for the four most recent actuarial valuation dates.



**TABLE B12**  
**CITY OF PALO ALTO**  
**HISTORICAL PENSION FUNDING PROGRESS**  
**(Dollars in Thousands)**

Date June 30,	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll
Miscellaneous Plan					
2017	\$714,019	\$469,782	\$244,237	65.8%	\$73,722
2018	780,729	512,924	267,805	65.7%	77,606
2019	811,330	546,669	264,661	67.4%	80,634
2020	849,004	573,840	275,164	67.6%	82,573
2021	884,335	594,063	290,272	67.2%	81,017
Safety Plans					
2017	\$383,556	\$250,474	\$133,082	65.3%	\$21,822
2018	415,775	268,468	147,307	64.6%	21,906
2019	439,408	280,173	159,235	63.8%	24,131
2020	456,817	289,028	167,789	63.3%	24,263
2021	477,550	294,739	182,811	61.7%	26,189

Source: City of Palo Alto 2020-21 ACFR.

*CalPERS Amortization Period Reform.* On February 13, 2018, the CalPERS Board voted to shorten the period over which actuarial gains and losses are amortized from 30 years to 20 years for new pension liabilities. The new 20-year amortization period begins with new gains or losses accrued starting with the June 30, 2019 actuarial valuations. The first payments on the new 20-year amortization schedule will take place in 2021.

A shorter amortization period will increase annual Unfunded Accrued Liability (“UAL”) contributions for cities that participate in CalPERS so long as CalPERS remains underfunded. The shortened amortization period will also lead to reductions of periods of negative amortization of the UAL, interest cost savings, and faster recoveries of funded status after market downturns.

Cities that participate in CalPERS will also see additional volatility in their future UAL contributions due to market performance as gains or losses will be amortized faster under the new amortization period.

The City cannot currently estimate the impact the shorter amortization period will have on its required contributions for its Miscellaneous and Safety Plans.

### **Other Post-Employments Benefits**

*Plan Description.* 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.



In fiscal year 2007-08 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.

The City's OPEB funding policy is to prefund these benefits by accumulating assets in the CERBT pursuant to City Council Resolution. For the year ended June 30, 2021, the City's contributions totaled \$14.6 million.

*Employees Covered.* Membership of the plan consisted of 1,011 retirees and beneficiaries receiving benefits, 75 inactive members entitled to but not yet receiving benefits and 897 active plan members at June 30, 2020, the date of the latest actuarial valuation.

*Funding Policy.* The contribution requirements for plan members and the City are established by an MOU as negotiated by each group or bargaining unit. The required contribution is based on projected pay-as-you-go financing requirements.

*Changes in Net OPEB Liability.* The following table shows the changes in the City's net OPEB obligation to the Plan:

**TABLE B13**  
**CITY OF PALO ALTO**  
**CHANGE IN NET OPEB LIABILITY**  
**Fiscal Year 2020-21**  
**(Dollars in Thousands)**

Service cost	\$ 6,366
Interest on OPEB liability	16,572
Employer contributions	(16,475)
Investment income	(4,327)
Changes in benefit terms	-
Changes in assumptions	(4,426)
Difference btw. actual and expected exp.	-
Administrative expenses	58
Net changes	(2,323)
Net OPEB obligation, beginning of the year	127,030
Net OPEB obligation, end of the year	124,798

Source: City of Palo Alto 2020-21 ACFR.



The following table shows a three-year history of the City's outstanding OPEB obligation and covered payroll.

**TABLE B14**  
**CITY OF PALO ALTO**  
**HISTORIC OPEB LIABILITY AND COVERED PAYROLL**  
**(Dollars in Thousands)**

Fiscal Year Ending June 30,	Total OPEB Obligation	Plan Net Position	Net OPEB Liability (UAAL)	Covered Payroll	Ratio of UAAL to Covered Payroll
2018	\$ 244,759	\$ 91,250	\$ 153,509	\$ 118,774	129.24%
2019	255,630	107,810	147,820	119,090	124.12
2020	245,509	118,479	127,030	118,014	107.64
2021	251,293	126,495	124,798	125,676	99.30

Source: City of Palo Alto 2020-21 ACFR.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

For information concerning the City's OPEB obligations, including descriptions of the actuarial methods and assumptions, please see APPENDIX B—ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2021, Note 12.

### Debt Obligations

*General Obligation Bonds.* Other than the Prior Bonds, the City has no outstanding general obligation bonds.

*Short-Term General Fund-Secured Obligations.* The City has no outstanding short-term obligations secured by its general fund.

*Long-Term General Fund-Secured Obligations.* On June 5, 2018, the City caused the execution and delivery of its \$8,970,000 City of Palo Alto 2018 Certificates of Participation (Capital Improvement Project; 2002B Refinancing) (Federally Taxable) (Green Bonds) (the "2018 Certificates") to (a) finance the costs of the renovation of the Palo Alto Municipal Golf Course, and (b) prepay, on a current basis, the outstanding City of Palo Alto Certificates of Participation (Civic Center Refinancing and Downtown Parking Improvements Project), Series 2002B (Taxable). Principal payments are due annually on November 1 and interest payments are due semi-annually on May 1 and November 1 at an average rate of 4.10 percent. The City's average annual payments with respect to the certificates is \$530,000 and the certificates mature on November 1, 2047.

On March 21, 2019, the City caused the execution and delivery of its \$26,785,000 City of Palo Alto 2019 Certificates of Participation, Series A (California Avenue Parking Garage) (Tax-Exempt) (the "2019A



Certificates”), and its \$10,585,000 2019 Certificates of Participation, Series B (California Avenue Parking Garage) (Federally Taxable) (the “2019B Certificates”), to finance the costs of the construction of a 636 space parking garage. Principal payments are due annually on November 1 and interest payments are due semi-annually on May 1 and November 1 at an average rate of 4.76 percent. The City’s average annual payments with respect to the certificates is \$2,384,515.88 and the certificates mature on November 1, 2048.

On April 7, 2021, the City caused the execution and delivery of its \$101,505,000 City of Palo Alto 2021 Certificates of Participation (Public Safety Building) (the “2021 Certificates”), to finance the costs of a public safety building. Principal payments are due annually on November 1 and interest payments are due semi-annually on May 1 and November 1 at an average rate of 2.47 percent. The City’s average annual payments with respect to the certificates is \$4,948,912.05 and the certificates mature on November 1, 2050.



The following tables shows the City's total general fund-secured debt service obligations, including the 2018 Certificates, the 2019A Certificates, the 2019B Certificates and the 2021 Certificates.

**TABLE B15**  
**CITY OF PALO ALTO**  
**DEBT SERVICE REQUIREMENTS ON GENERAL FUND-SECURED OBLIGATIONS**

Year Ending November 1	2018 Certificates	2019A Certificates	2019B Certificates	2021 Certificates	Total
2022	\$ 531,791.00	\$ 1,649,250.00	\$ 738,248.70	\$ 2,926,712.50	\$ 5,846,002.20
2023	530,707.00	2,013,750.00	373,315.80	5,061,712.50	7,979,485.30
2024	529,267.00	2,009,250.00	373,315.80	5,064,962.50	7,976,795.30
2025	532,317.50	2,013,250.00	373,315.80	5,067,712.50	7,986,595.80
2026	529,814.00	2,010,250.00	373,315.80	5,069,712.50	7,983,092.30
2027	531,916.00	2,010,500.00	373,315.80	5,075,712.50	7,991,444.30
2028	533,429.00	2,013,750.00	373,315.80	5,080,212.50	8,000,707.30
2029	529,453.00	2,009,750.00	373,315.80	5,082,962.50	7,995,481.30
2030	529,653.00	2,013,750.00	373,315.80	5,083,712.50	8,000,431.30
2031	529,453.00	2,010,250.00	373,315.80	5,072,212.50	7,985,231.30
2032	533,853.00	2,009,500.00	373,315.80	5,060,412.50	7,977,081.30
2033	532,653.00	2,011,250.00	373,315.80	5,061,862.50	7,979,081.30
2034	531,053.00	2,010,250.00	373,315.80	5,060,312.50	7,974,931.30
2035	529,053.00	2,011,500.00	373,315.80	5,065,762.50	7,979,631.30
2036	531,281.00	2,009,750.00	373,315.80	5,047,912.50	7,962,259.30
2037	532,891.00	2,010,000.00	373,315.80	5,049,212.50	7,965,419.30
2038	533,883.00	2,012,000.00	373,315.80	5,049,012.50	7,968,211.30
2039	529,257.00	2,010,500.00	373,315.80	5,047,312.50	7,960,385.30
2040	529,219.00	2,010,500.00	373,315.80	5,049,112.50	7,962,147.30
2041	533,563.00	2,011,750.00	373,315.80	5,049,312.50	7,967,941.30
2042	531,683.00	2,014,000.00	373,315.80	5,052,912.50	7,971,911.30
2043	529,170.00	2,012,000.00	373,315.80	5,054,812.50	7,969,298.30
2044	531,024.00	2,010,750.00	373,315.80	5,054,712.50	7,969,802.30
2045	532,034.00	—	2,383,315.80	5,057,700.00	7,973,049.80
2046	532,200.00	—	2,380,860.70	5,063,137.50	7,976,198.20
2047	531,522.00	—	2,384,707.26	5,061,212.50	7,977,441.76
2048	—	—	2,384,420.36	5,062,037.50	7,446,457.86
2049	—	—	—	5,065,500.00	5,065,500.00
2050	—	—	—	5,066,487.50	5,066,487.50
Total	<u>\$13,812,139.50</u>	<u>\$45,897,500.00</u>	<u>\$18,484,500.42</u>	<u>\$144,664,362.50</u>	<u>\$222,858,502.42</u>

### Other Obligations

The City has certain other outstanding obligations including utility revenue bonds.

See APPENDIX B—ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 20, 202—Notes to Basic Financial Statements—NOTE 7.



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**APPENDIX C**

**ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY**  
**FOR THE YEAR ENDED JUNE 30, 2021**



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# CITY OF PALO ALTO CALIFORNIA



## ANNUAL COMPREHENSIVE FINANCIAL REPORT



**FISCAL YEAR ENDED  
JUNE 30, 2021**











CITY OF  
**PALO  
ALTO**

# Fiscal Year 2021 Annual Comprehensive Financial Report

City of Palo Alto, CA  
Fiscal Year Ended June 30, 2021

## City Council

Tom DuBois, Mayor

Patrick Burt, Vice Mayor

Alison Cormack

Eric Filseth

Lydia Kou

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, 2021**

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## Transmittal Letter.....



### OFFICE OF THE CITY MANAGER

250 Hamilton Ave, 7th Floor  
Palo Alto, CA 94301  
650.329.2692

November 15, 2021

### THE HONORABLE CITY COUNCIL

Palo Alto, California

### ANNUAL COMPREHENSIVE FINANCIAL REPORT

YEAR ENDED JUNE 30, 2021

### 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, 2021 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 conformity with generally accepted accounting principles (GAAP). MGO issued an unmodified opinion for the fiscal year ended June 30, 2021. Their report is presented as the first component of the financial section of this report. While MGO has issued an unmodified opinion 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 66,573 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, quarterly budget-versus-actual results, 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 and the world began to grapple with the impacts of the novel coronavirus (COVID-19), a global pandemic, and the ensuing public health emergency. While the Fiscal Year 2020 Adopted Budget saw the most significant immediate impacts as shelter in place orders were instituted in the County of Santa Clara and State of California, work on Economic Recovery began in Fall 2020, prior to the City Council setting this priority in January 2021. These financials reflect the one full year of the economic impacts of the pandemic – the stark, immediate results stemming from shelter in place orders through promising third calendar quarter results and widespread distribution of the COVID-19 vaccine. Throughout these times, several conversations with the City Council occurred in 2020 and 2021 that resulted in the Community and Economic Recovery workplan. This workplan includes several priority projects that connect the City Council's Priorities and ensure organization support and capacity to further recovery efforts.

**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 2021, the City's unemployment rate was 3.2 percent



compared to the prior year level of 5.7 percent. The County of Santa Clara's unemployment rate was 5.2 percent compared to the prior year level of 10.7 percent. The State of California's unemployment rate was 8.0 percent, compared to the prior year level of 14.9 percent. These levels are lower than FY 2020 but are still significantly higher than recent years as many businesses were forced to adjust their workforce and operations were severely restricted by the COVID-19 shelter in place orders.

**Real Estate Market:** The 2020-2021 County of Santa Clara Assessor's Annual Report noted that the County of Santa Clara's annual assessment roll increased by \$35.5 billion to \$551.5 billion, a 6.87 percent increase over the prior year. Palo Alto's assessment roll represents 7.69 percent of the County of Santa Clara's assessment roll and grew 7.77 percent over the prior year to \$42.4 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 \$4.0 million as of second quarter 2021. According to Newmark, a company that tracks real estate trends throughout the county, the average asking rent in Palo Alto for commercial space during the second quarter of 2021 was \$6.88 per square foot. Based on this report, leasing activities are rebounding, after a sluggish start in calendar year 2021. Despite continuing struggles between executives and employees as it relates to the push to return to offices, the continued focus on distribution of the vaccine, and increase confidence in the second half of calendar year 2021 will influence how quickly leasing activities will recover.

**Local Trends:** Mixed economic opinions and indicators existed at the time the FY 2021 budget was developed. It is important to recall that the actions and leadership of the City Council quickly recognized and worked to address these impacts. On March 16, 2020, the State of California and the County of Santa Clara ordered Shelter in Place directives to slow the spread of COVID-19, which continued into FY 2021. Prior to COVID-19 and after, the Bay Area economy had sustained better performance than the state and the nation. Disruptions caused by COVID-19 are both widespread and significant to Palo Alto, the state and nation's economic environment and community. The City's unemployment has been elevated since the pandemic hit the region, however, the rate is significantly lower than national, State of California, and County of Santa Clara's unemployment rates. Job growth is tepid. Economically sensitive revenue sources in FY 2020 and/or FY 2021, such as transient occupancy tax, sales and utility user's taxes have significantly declined while documentary transfer and property taxes have been resilient with a healthy growth, however, future years will be monitored closely.

**General Fund Balancing and Results:** The FY 2021 budget was developed as the world grappled with COVID-19, a global pandemic with unknown financial implications impacting regional, national and global economies in response to shelter in place orders and related social distancing restrictions. The City Council provided direction to build the FY 2021 budget assuming a loss of \$39.0 million in General Fund tax revenues in FY 2021. Overall, the City's General Fund was adopted to collect \$196.4 million in revenues and \$196.9 million in expenditure, a 15 percent reduction compared to the FY 2020 Adopted Operating Budget. In the General Fund, full-time staffing was reduced from 574.43 FTE to 509.91 FTE (a reduction of 64.52 FTE) and part-time staffing was reduced from 81.31 FTE to 55.61 FTE (a reduction of 25.70 FTE). Prioritizing essential services and reducing or eliminating discretionary services was reflected in this budget and achieved through compiling feedback throughout the May and June budget sessions with the 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.



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 2021. In the General Fund, this resulted in \$3.0 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, 2021, the City's irrevocable pension trust fund has a total of \$32.3 million in Citywide contributions (excluding earnings from investments), of which \$21.0 million is from the General Fund.

As the community grappled with the 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 2021:

- Economic Recovery
- Housing for Social and Economic Balance
- Social Justice
- Climate Change - Protection and Adaptation

Progress continues to be made on these priorities, which require long-term strategies. The FY 2021 budget established a number of COVID-19 related reserves to address needs of the City organization and the community during shelter in place, as well as planning for transition to the "new normal" after restrictions were lessened.

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 2021-2025 Capital Improvement Plan (CIP), the IP projects were updated for scope increases and cost escalations, resulting in a revised Infrastructure Plan of \$260.5 million. These projects will be funded partially by debt to be repaid with voter-approved increases of 3.5 percent in the transient occupancy tax (TOT) rate and from other sources such as impact fees and Stanford University Medical Center development agreement monies. The 2021-2025 CIP assumed the opening of new Marriott hotels in FY 2021; however, as a result of the public health emergency and its impact on revenues, the annual TOT funding is not estimated to cover the cost of the debt service related to the IP projects for several years. Staff is continually revising these figures and adjusting and planning for these impacts in order to maintain 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 customers by directing staff to maintain flat rates without compromising the safety and integrity of the utility systems. Rates increased in 2021 for gas, 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 finance issues which the City can address proactively. Moreover, it is a tool that allows policymakers an opportunity to prioritize funding needs over time. It sets the tone for the annual budget process and is one of the many tools and reports that Council uses for financial planning. The LRFF was developed prior to the COVID-19 pandemic, at a time when national, state, and local economic indicators were mixed. Unemployment remained low, job growth slowed, and international trade had negative impacts on economic data.

The FY 2021-2030 LRFF was presented to the Finance Committee in December 2019 and approved by the City Council in February 2020. The forecast anticipated a small surplus in FY 2021 followed by annual gaps in FY 2022 through 2025, before the revenues outpaced the expenses in FY 2026 and beyond. Staff identified and recommended a course of action that would structurally balance the General Fund in FY 2021 and largely balance the General Fund on an ongoing basis. The FY 2021 budget included a proactive pension funding contribution to the City's irrevocable Section 115 Pension Trust Fund and reflected what retirement costs would be if the "normal cost" of contributions was budgeted at a 6.2 percent discount rate compared to the CalPERS estimated 7.0 percent discount rate. Subsequent to the development of the LRFF, revenue and expense numbers were revised based on estimated impacts from the pandemic to recalculate the budget and reflect changes in revenues and expenses to incorporate policy direction from City Council issued after the LRFF to prioritize essential services and pare back discretionary services as discussed in the General Fund Balancing and Results section above.

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

### **SIGNIFICANT EVENTS AND ACCOMPLISHMENTS**



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

- Applied for and awarded the Bike Friendly Communities Gold-level Status.
- Received Santa Clara County Supervisor's Medal for Outstanding Service for staff contributions and efforts in areas of auto theft and community service.
- Received the Reliable Public Power Provider (RP3) award from American Public Power Association (APPA) for industry-recognized leading practices in reliability & safety.



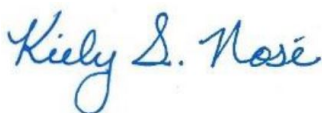
- Received the Smart Energy Provider Award from American Public Power Association (APPA), which recognizes utilities for demonstrating commitment and accomplishment in smart energy program planning; energy efficiency and distributed energy resources; environmental and sustainability programs; and communication and customer experience.
- Launched a robust Race & Equity framework and initiative and partnered with local community organizations and stakeholders.
- Established 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 support key business districts such as Downtown Palo Alto, California Avenue, and the Stanford Shopping Center.
- Responded to the COVID-19 pandemic by participating in the City's Emergency Operations Center and quickly developing policies and protocols to protect firefighters and patients by minimizing exposure.
- Opened Foothills Nature Preserve to all visitors and partnered with the Environmental Volunteers and other volunteers to create a welcome video for the Preserve.
- Awarded the construction contract for the Public Safety Building, a 2014 Infrastructure Plan Project, and associated debt financing.
- Substantially completed the Junior Museum and Zoo rebuilding project after 10 years in the making, with all new exhibits designed by JMZ staff, a re-imagined zoo with new animals, and a focus on inclusion, accessibility, and the highest standards in animal care. It is expected to open in Fall 2021.
- Completed construction of the new California Avenue Area Parking Garage project.

**Awards:** During the past year, the City received an award for the prior fiscal year (2020) ACFR from the Government Finance Officers Association (GFOA) for “excellence in financial reporting.” The 2021 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 also like to express its 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 Council**

Tom DuBois, **Mayor**  
Patrick Burt, **Vice-Mayor**  
Alison Cormack  
Eric Filseth  
Lydia Kou  
Greer Stone  
Greg Tanaka

### **Finance Committee**

Alison Cormack, **Chair**  
Patrick Burt  
Eric Filseth

### **Policy and Services Committee**

Lydia Kou, **Chair**  
Greer Stone  
Greg Tanaka

### **Council-Appointed Officers**

**City Manager**  
Ed Shikada

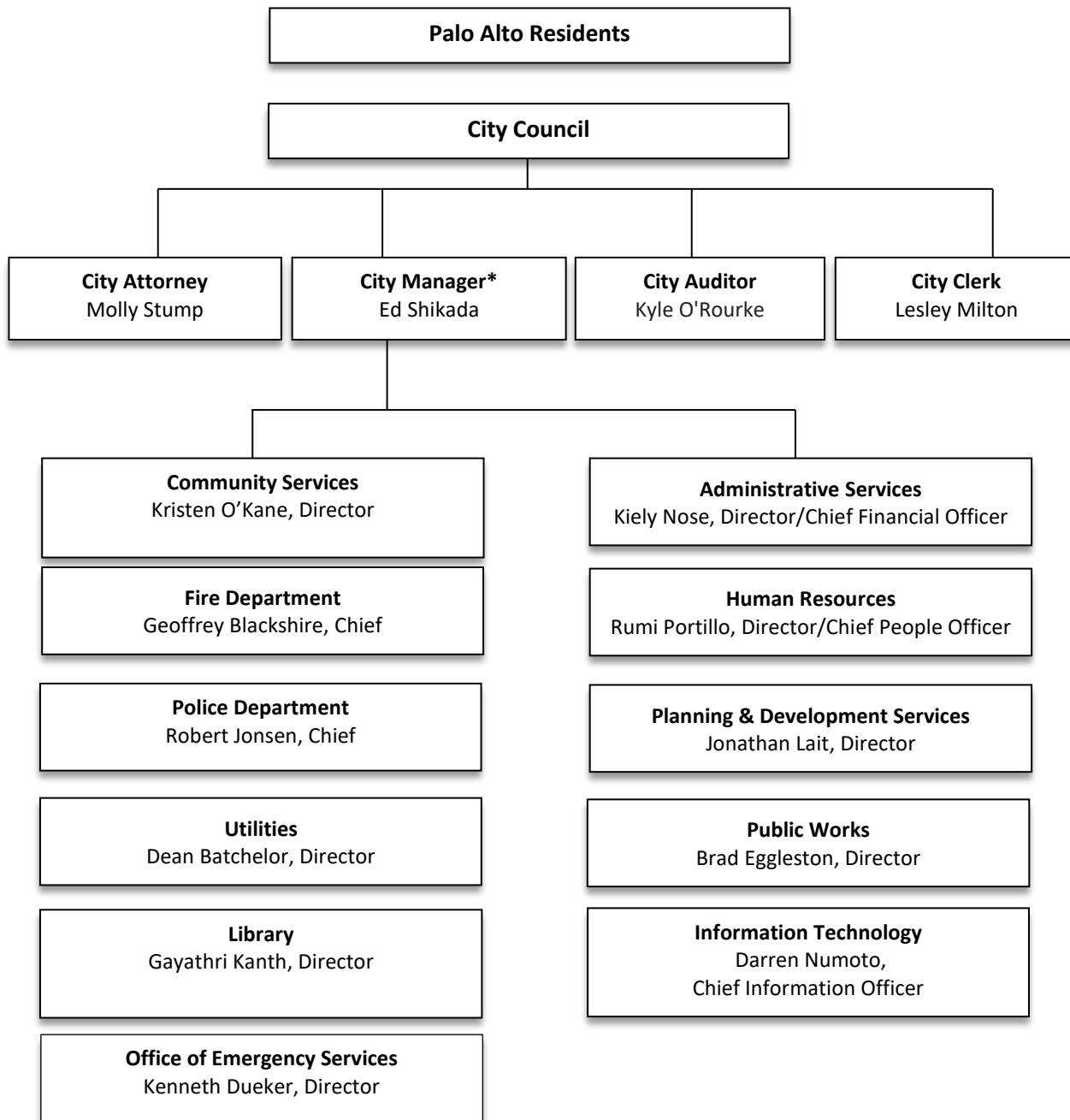
**City Attorney**  
Molly Stump

**City Clerk**  
Lesley Milton

**City Auditor**  
Kyle O'Rourke



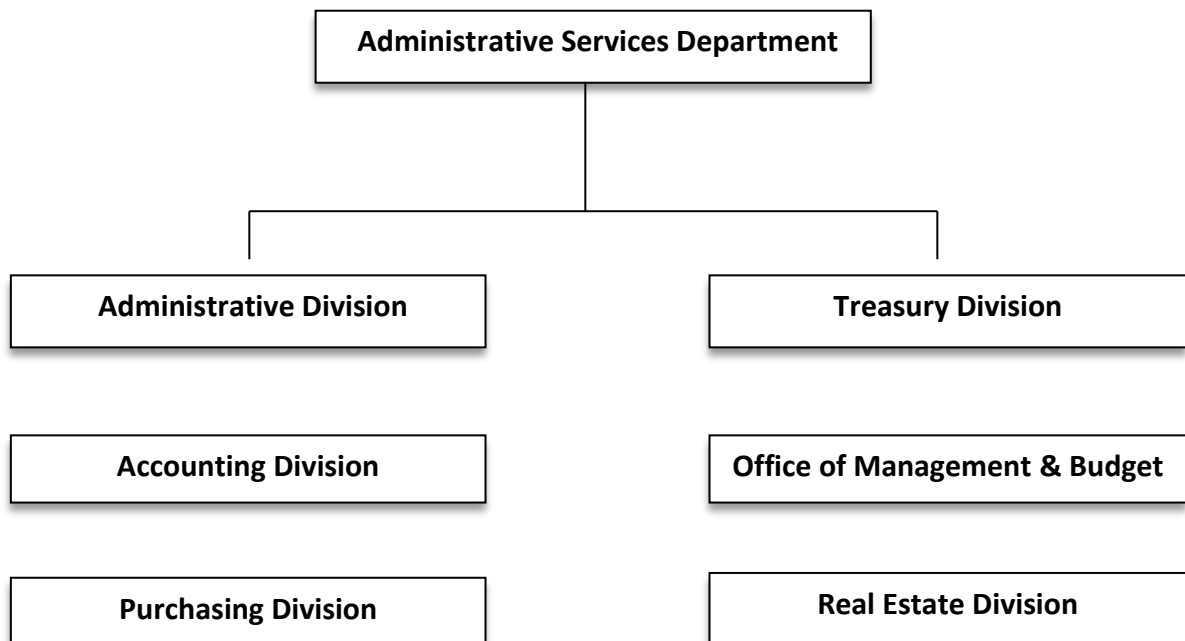
## City of Palo Alto Organization .....



\* 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 Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended

June 30, 2020

*Christopher P. Morill*

Executive Director/CEO



## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Palo Alto, California (City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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



### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2021, 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.

### ***Emphasis of Matter***

As discussed in Note 1(n) to the financial statements, as of July 1, 2020, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinions are not modified with respect to this matter.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of changes in net pension liability and related ratios, the schedules of pension contributions, the schedule of changes in net OPEB liability and related ratios, and the schedule of employer OPEB contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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



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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2021 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Walnut Creek, California  
November 15, 2021



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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 financial performance for the fiscal year ended June 30, 2021. 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

- The assets and deferred outflows of resources of the City of Palo Alto (City) exceeded its liabilities and deferred inflows of resources at the close of Fiscal Year (FY) 2021 by \$1.2 billion. Of this amount, \$24.1 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 \$1.2 billion, an increase of \$4.8 million, or 0.4 percent over the prior fiscal year. Of this amount, \$22.2 million was generated by business-type activities and offset by a decrease of \$17.4 million by governmental activities.
- The City's total outstanding long-term debt increased by \$99.4 million during the current fiscal year due to the issuance of Certificates of Participation (COPs) amounting to \$101.5 million plus a \$6.5 million premium to finance the construction of a public safety building, offset by the scheduled debt retirements.
- At the close of FY 2021, the City's governmental funds reported total fund balances of \$365.6 million, an increase of \$98.9 million from the prior year. Approximately 13.4 percent of this amount, or \$49.1 million, is unassigned fund balance and available for spending at the City's discretion.
- At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned and unassigned components of fund balance) for the General Fund was \$66.3 million, or 38.1 percent of total General Fund expenditures, including transfers.
- In May 2021, the City received the first half of its total \$13.7 million American Rescue Plan Act of 2021 (ARPA) allocation. The first distribution of \$6.9 million was recorded as unearned revenue at June 30, 2021 as the funds are not earned nor spent. The second distribution is expected in May 2022.
- The City implemented the Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, effective fiscal year ended June 30, 2021. The statement establishes criteria for identifying fiduciary activities of all state and local governments. The City evaluated all funds and activities in accordance with the statement and determined that the Cable Joint Powers Authority and the assessment district activities previously reported as agency funds should be reported as custodial funds.

### 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
- The 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 view of the City's activities as a whole. They include the Statement of Net Position and the Statement of Activities.

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

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

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

#### ***Governmental Activities***

All of the City's basic services are considered to be governmental activities. Included in basic services are the City Council, City Manager, City Attorney, City Clerk, City Auditor, Administrative Services, Human Resources, Public Works, Planning and 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***

All of the City's enterprise activities are reported as business-type activities, including Water, Electric, Fiber Optics, Gas, Wastewater Collection, Wastewater Treatment, Refuse, Storm Drainage, and Airport. Unlike governmental services, these services are intended to recover all or a significant portion of their costs through user fees and charges.

The Government-wide Financial Statements can be found on pages 31-33 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 presented individually 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 on the modified accrual basis of accounting, which means they measure only 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 2021, the City had two major governmental funds - the General Fund and the Capital Projects Fund. Data from the other governmental funds are combined into a single column for presentation. Individual fund data for each of these non-major governmental funds is provided 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 35-39 of this report.

### ***Proprietary Funds***

Enterprise and Internal Service Fund Financial Statements are prepared on the full accrual basis of accounting, similar to the basis of accounting that is used by private sector companies. These statements include all of the 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 40-45 of this report.

### ***Fiduciary Funds***

Fiduciary funds are used to account for assets held by the City acting in a fiduciary capacity for other entities and individuals. 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. These include balances and activities of the Cable Joint 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.

The Fiduciary Fund Financial Statement can be found on pages 46 and 47 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 51-108 of this report.



### Required and Other Supplemental Information

The Required Supplementary Information related to the City's pension and Other Post-Employment Benefits (OPEB) plans is included after the Notes to the Basic Financial Statements on pages 109-114. 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 115-139 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, 2021. As noted earlier, the City's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$1.2 billion at the end of the fiscal year, an increase in net position of \$4.8 million.

#### CONDENSED STATEMENT OF NET POSITION

*As of June 30*  
(in millions)

	Governmental Activities		Business-type Activities		Government-wide Totals	
	2021	2020	2021	2020	2021	2020
Cash and investments	\$ 443.4	\$ 342.8	\$ 285.6	\$ 277.4	\$ 729.0	\$ 620.2
Other assets	76.6	60.5	47.7	52.8	124.3	113.3
Capital assets	602.0	596.3	708.5	693.2	1,310.5	1,289.5
<b>Total Assets</b>	<b>1,122.0</b>	<b>999.6</b>	<b>1,041.8</b>	<b>1,023.4</b>	<b>2,163.8</b>	<b>2,023.0</b>
Unamortized loss from refunding		-	0.1	0.2	0.1	0.2
Pension and OPEB related	60.8	55.8	24.1	20.9	84.9	76.7
<b>Total Deferred Outflows of Resources</b>	<b>60.8</b>	<b>55.8</b>	<b>24.2</b>	<b>21.1</b>	<b>85.0</b>	<b>76.9</b>
Net pension and OPEB liabilities	438.2	416.3	159.7	153.7	597.9	570.0
Long-term debt	217.5	112.5	68.9	74.5	286.4	187.0
Other liabilities	87.6	61.5	23.8	21.7	111.4	83.2
<b>Total Liabilities</b>	<b>743.3</b>	<b>590.3</b>	<b>252.4</b>	<b>249.9</b>	<b>995.7</b>	<b>840.2</b>
Pension and OPEB related	16.3	24.5	6.4	9.6	22.7	34.1
<b>Total Deferred Inflows of Resources</b>	<b>16.3</b>	<b>24.5</b>	<b>6.4</b>	<b>9.6</b>	<b>22.7</b>	<b>34.1</b>
<b>Net Position</b>						
Net investment in capital assets	480.6	497.4	642.0	621.3	1,122.6	1,118.7
Restricted	80.3	73.3	3.4	4.1	83.7	77.4
Unrestricted	(137.7)	(130.1)	161.8	159.6	24.1	29.5
<b>Total Net Position</b>	<b>\$ 423.2</b>	<b>\$ 440.6</b>	<b>\$ 807.2</b>	<b>\$ 785.0</b>	<b>\$ 1,230.4</b>	<b>\$ 1,225.6</b>

The largest portion of the City's net position (91.2 percent) is its net investment in capital assets such as land, buildings, infrastructure and vehicles, less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



The restricted portion of the City's net position (6.8 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$24.1 million, representing 2.0 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 has positive unrestricted net positions for the government on a combined basis, considering both governmental activities and business-type activities. The unrestricted net position for governmental activities is negative 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 \$137.7 million net deficit for governmental activities includes the \$303.8 million net impact of net pension liabilities and its related deferred outflows of resources and \$89.9 million net impact of net OPEB liabilities and its related deferred outflows of resources and deferred inflows of resources. Governmental activities' unrestricted net position, excluding these impacts, is \$256.0 million.

Components of the \$4.8 million increase in total net position are discussed in the following sections for governmental activities and business-type activities.

### ***Governmental Activities – Net Position***

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

#### **CONDENSED STATEMENT OF NET POSITION GOVERNMENTAL ACTIVITIES As of June 30 (in millions)**

	<b>2021</b>	<b>2020</b>	<b>Increase/ (Decrease)</b>
Cash and investments	\$ 443.4	\$ 342.8	\$ 100.6
Other assets	76.6	60.5	16.1
Capital assets	602.0	596.3	5.7
<b>Total Assets</b>	<b>1,122.0</b>	<b>999.6</b>	<b>122.4</b>
Pension and OPEB related	60.8	55.8	5.0
<b>Total Deferred Outflows of Resources</b>	<b>60.8</b>	<b>55.8</b>	<b>5.0</b>
Net pension and OPEB liabilities	438.2	416.3	21.9
Long-term debt	217.5	112.5	105.0
Other liabilities	87.6	61.5	26.1
<b>Total Liabilities</b>	<b>743.3</b>	<b>590.3</b>	<b>153.0</b>
Pension and OPEB related	16.3	24.5	(8.2)
<b>Total Deferred Inflows of Resources</b>	<b>16.3</b>	<b>24.5</b>	<b>(8.2)</b>
Net investment in capital assets	480.6	497.4	(16.8)
Restricted	80.3	73.3	7.0
Unrestricted	(137.7)	(130.1)	(7.6)
<b>Total Net Position</b>	<b>\$ 423.2</b>	<b>\$ 440.6</b>	<b>\$ (17.4)</b>



The City's Governmental Activities total net position decreased \$17.4 million to \$423.2 million as of June 30, 2021 due to the following:

- **Assets and Deferred Outflows of Resources**
  - Cash and investments increased \$100.6 million mainly due to the issuance of COPs amounting to \$101.5 million plus \$6.5 million premium to finance the construction of a public safety building and an increase in restricted cash and investments held in the Public Agency Retirement Services Section 115 irrevocable trust (Section 115 Pension Trust).
  - Other assets increased \$16.1 million mainly due to an increase in notes receivable for the predevelopment and construction of multifamily rental housing reserved for occupancy by extremely low, very low and low-income households.
  - Capital assets increased \$5.7 million due to continued construction of the Highway 101 Pedestrian / Bicycle overpass, Public Safety Building, and California Avenue Parking Garage and offset by the retirements and depreciation.
  - Pension and OPEB related deferred outflows of resources increased \$5.0 million due to increase of pension related deferred outflows of resources of \$5.7 million offset by a decrease of OPEB related deferred outflows of resources of \$0.7 million.
- **Liabilities and Deferred Inflows of Resources**
  - Net pension and OPEB liabilities increased \$21.9 million due to increase in net pension liabilities of \$23.5 million offset by the decrease of net OPEB liabilities of \$1.6 million.
  - Long-term debt increased \$105.0 million due to issuance of COPs amounting to \$101.5 million plus \$6.5 premium to finance the construction of a public safety building, offset by the scheduled debt retirements.
  - Other liabilities increased \$26.1 million primarily due to \$6.9 million receipt of City's first of two distributions of the ARPA funding that was recorded as unearned revenue as the funds are not earned nor spent. Another factor driving the increase was the recording of a claim liability of \$12.6 million for a class action lawsuit.
  - Pension and OPEB related deferred inflows of resources decreased \$8.2 million due to decrease of \$5.8 million pension related inflows of resources and decrease of OPEB related deferred inflows of resources of \$2.4 million.
- **Net position**
  - Net investment in capital assets decreased \$16.8 million to \$480.6 million mainly due to current year depreciation for capital assets. Restricted net position increased \$7.0 million to \$80.3 million primarily due to increases of restricted cash and investments held in the Section 115 Pension Trust and debt service. Unrestricted net position is negative primarily due to the recognition of the net pension and OPEB liabilities as required by GASB Statements Nos. 68 and 75.



### ***Governmental Activities – Revenues***

The table below shows that Governmental Activities revenues totaled \$198.1 million in FY 2021, a decrease of \$15.2 million from prior year revenues of \$213.3 million.

<b>GOVERNMENTAL ACTIVITIES</b>			
<b><i>Revenues for the Year Ended June 30</i></b>			
<b>(in millions)</b>			
<b>Revenues by Source</b>	<b>2021</b>	<b>2020</b>	<b>Increase/ (Decrease)</b>
<b>Program Revenues:</b>			
Charges for services	\$ 55.5	\$ 57.1	\$ (1.6)
Operating grants and contributions	3.0	2.6	0.4
Capital grants and contributions	11.3	9.0	2.3
<b>Total Program Revenues</b>	<b>69.8</b>	<b>68.7</b>	<b>1.1</b>
<b>General Revenues:</b>			
Property tax	60.9	55.6	5.3
Sales tax	29.1	30.6	(1.5)
Utility user tax	14.6	16.1	(1.5)
Transient occupancy tax	5.2	18.6	(13.4)
Documentary transfer tax	10.6	6.9	3.7
Other tax	2.8	2.9	(0.1)
Investment earnings	4.9	13.8	(8.9)
Miscellaneous	0.2	0.1	0.1
<b>Total General Revenues</b>	<b>128.3</b>	<b>144.6</b>	<b>(16.3)</b>
<b>Total Revenues</b>	<b>\$ 198.1</b>	<b>\$ 213.3</b>	<b>\$ (15.2)</b>

Program Revenues such as charges for services, operating grants and contributions, and capital grants and contributions are generated from or restricted to each activity. Total Program Revenues increased \$1.1 million, or 1.6 percent, from the prior year.

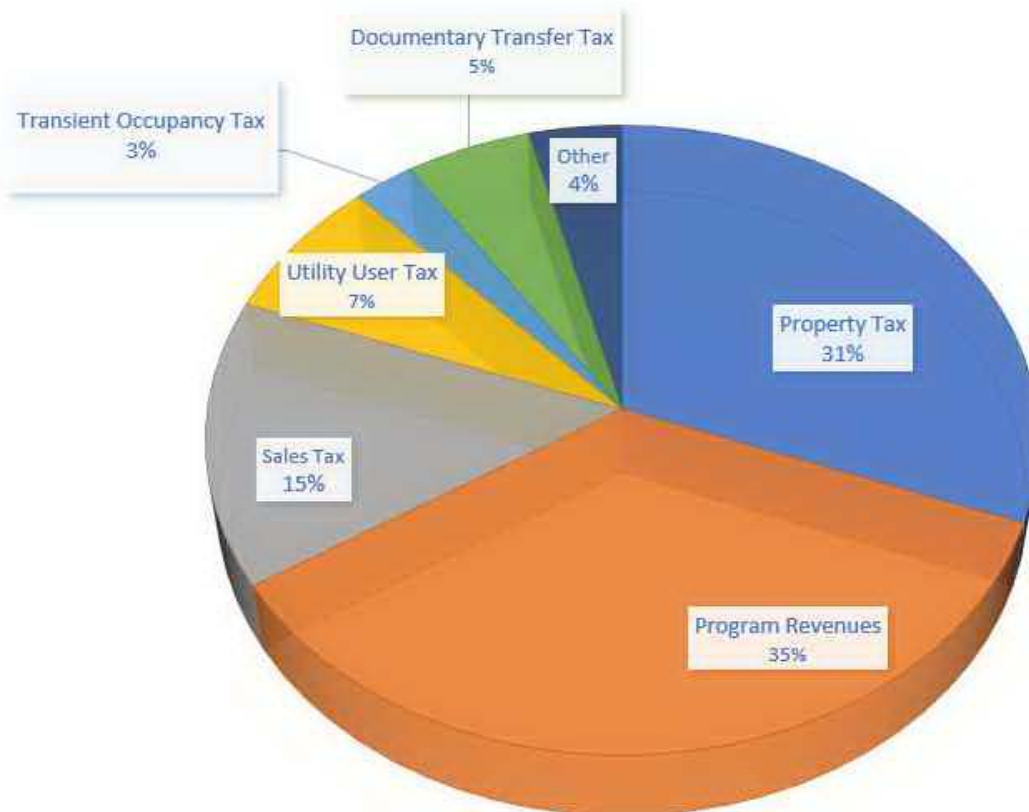


General Revenues decreased \$16.3 million, or 11.3 percent, from the prior year mainly due to decreases in sales tax, utility user tax, transient occupancy tax revenues as a result of the economic impact of the COVID-19 pandemic, and investment earnings due to impact of negative fair market value adjustments.

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 – Revenues by Source***

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





### *Governmental Activities – Expenses*

The table below presents a comparison of FY 2021 and FY 2020 expenses by function, along with interest and other expenses and transfers. Total Governmental Activities functional expense was \$234.6 million in FY 2021, a decrease of \$8.3 million.

<b>GOVERNMENTAL ACTIVITIES</b>			
<b><i>Expenses and Change in Net Position for the Year Ended June 30</i></b>			
<b>(in millions)</b>			
<b>Activities</b>	<b>2021</b>	<b>2020</b>	<b>Increase/ (Decrease)</b>
City Council	\$ 0.2	\$ 0.2	\$ -
City Manager	2.5	3.6	(1.1)
City Attorney	2.3	2.8	(0.5)
City Clerk	0.7	0.8	(0.1)
City Auditor	0.6	0.6	0.0
Administrative Services	23.0	15.9	7.1
Human Resources	2.5	3.0	(0.5)
Public Works	52.7	45.6	7.1
Planning and Development Services	18.1	21.7	(3.6)
Office of Transportation	3.6	4.7	(1.1)
Police	43.6	50.9	(7.3)
Fire	37.1	41.3	(4.2)
Community Services	30.3	34.2	(3.9)
Library	11.1	13.0	(1.9)
Interest and Other Expense	6.3	4.6	1.7
<b>Total Functional Expense</b>	<b>234.6</b>	<b>242.9</b>	<b>(8.3)</b>
Change in Net Position before Transfers	(36.5)	(29.6)	(6.9)
Transfers	19.1	20.2	(1.1)
Change in Net Position	(17.4)	(9.4)	(8.0)
Net Position, Beginning	440.6	450.0	(9.4)
<b>Net Position, Ending</b>	<b>\$ 423.2</b>	<b>\$ 440.6</b>	<b>\$ (17.4)</b>

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

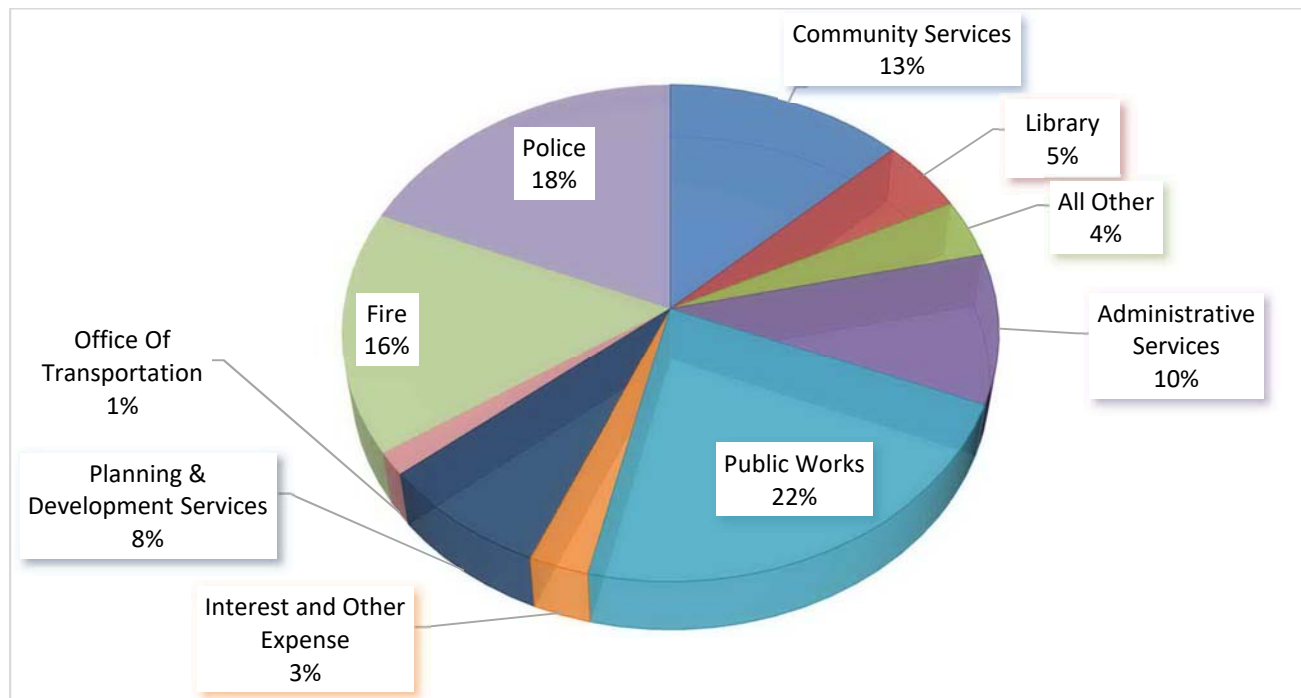


Total functional expenses were \$234.6 million in the current fiscal year, a decrease of \$8.3 million from the prior year mainly due to decreases in salaries and benefits and contract services. All department functional expenses decreased except for a) Public Works which increased \$7.1 million due to various repairs and maintenance of capital assets such as streets, sidewalks, facilities, and parks all of which are non-capitalizable; and b) Administrative Services which increased \$7.1 million mainly due to the expenses incurred for claims related to a class action lawsuit of \$12.6 million.

Further variance analysis of functional expenses can be found in the Financial Analysis of Governmental Funds section of the MD&A.

### ***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.

<b>CONDENSED STATEMENT OF NET POSITION BUSINESS-TYPE ACTIVITIES As of June 30 (in millions)</b>			
	<b>2021</b>	<b>2020</b>	<b>Increase/ (Decrease)</b>
Cash and investments	\$ 285.6	\$ 277.4	\$ 8.2
Other assets	47.7	52.8	(5.1)
Capital assets	708.5	693.2	15.3
<b>Total Assets</b>	<b>1,041.8</b>	<b>1,023.4</b>	<b>18.4</b>
Unamortized loss from refunding	0.1	0.2	(0.1)
Pension and OPEB related	24.1	20.9	3.2
<b>Total Deferred Outflows of Resources</b>	<b>24.2</b>	<b>21.1</b>	<b>3.1</b>
Net pension and OPEB liabilities	159.7	153.7	6.0
Long-term debt	68.9	74.5	(5.6)
Other liabilities	23.8	21.7	2.1
<b>Total Liabilities</b>	<b>252.4</b>	<b>249.9</b>	<b>2.5</b>
Pension and OPEB related	6.4	9.6	(3.2)
<b>Total Deferred Inflows of Resources</b>	<b>6.4</b>	<b>9.6</b>	<b>(3.2)</b>
<b>Net Position</b>			
Net investment in capital assets	642.0	621.3	20.7
Restricted	3.4	4.1	(0.7)
Unrestricted	161.8	159.6	2.2
<b>Total Net Position</b>	<b>\$ 807.2</b>	<b>\$ 785.0</b>	<b>\$ 22.2</b>

The City's Business-type Activities total net position increased \$22.2 million to \$807.2 million as of June 30, 2021 due to the following:

- Assets and Deferred Outflows of Resources
  - Cash and investments increased \$8.2 million mainly due to increases in net position for all enterprise funds except for the Electric Fund.
  - Other assets decreased \$5.1 million mainly due to lower accounts receivable balance in the Electric Fund.



- Capital assets increased \$15.3 million to \$708.5 million primarily due to capital assets addition in the Electric, Wastewater Collection, Wastewater Treatment, Storm Drainage and Airport Funds. These capital assets additions and reduction in related long term debt also contributed to the \$20.7 million increase in net investment in capital assets to \$642.0 million in FY 2021.
- Liabilities and Deferred Inflows of Resources
  - Pension and OPEB related deferred outflows of resources increased \$3.2 million due to increases of pension related deferred outflows of resources of \$3.5 million offset by the decrease of OPEB related deferred outflows of resources of \$0.3 million.
  - Net pension and OPEB liabilities increased \$6.0 million due to a \$6.6 million increase in net pension liabilities offset by a \$0.6 million decrease in net OPEB liabilities.
  - Long term debt decreased \$5.6 million due to scheduled debt retirements.
  - Other liabilities increased \$2.1 million primarily due to higher year-end accruals in the Electric and Airport Funds.
  - Pension and OPEB related deferred inflows of resources decreased \$3.2 million due to a decrease of \$2.3 million related pension inflows of resources and decrease of OPEB related deferred inflows of resources of \$0.9 million.
- Net Position
  - Unrestricted net position of \$161.8 million, an increase of \$2.2 million from the prior year, represents assets available to finance day-to-day operations and other expenses approved by the City Council. This amount includes rate stabilization reserves (RSR) of \$51.3 million and operations reserves of \$69.2 million, along with the electric special projects (Calaveras) reserve of \$46.7 million, the hydro stabilization reserve of \$15.4 million and the CIP reserve of \$18.6 million. The positive balances in these reserves are offset by \$105.7 million net impact of net pension liabilities and its related deferred outflows of resources and \$36.3 million net impact of net OPEB liabilities and its related deferred outflows of resources and deferred inflows of resources.



### *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.

<b>BUSINESS-TYPE ACTIVITIES</b>			
<b><i>Revenues for the Year Ended June 30</i></b>			
<b>(in millions)</b>			
<b>Revenues by Source</b>	<b>2021</b>	<b>2020</b>	<b>Increase/ (Decrease)</b>
<b>Program Revenues:</b>			
Charges for services	\$ 346.5	\$ 353.0	\$ (6.5)
Operating grants and contributions	0.5	0.5	-
Capital grants and contributions	6.4	6.4	-
<b>Total Program Revenues</b>	<b>353.4</b>	<b>359.9</b>	<b>(6.5)</b>
<b>General Revenues:</b>			
Investment earnings	2.2	11.5	(9.3)
<b>Total General Revenues</b>	<b>2.2</b>	<b>11.5</b>	<b>(9.3)</b>
<b>Total Revenues</b>	<b>\$ 355.6</b>	<b>\$ 371.4</b>	<b>\$ (15.8)</b>

Business-type Activities revenues totaled \$355.6 million, a decrease of \$15.8 million from the prior year. Program revenues decreased \$6.5 million year over year. Charges for services decreased \$6.5 million from the prior year due to the following:

- Electric fund revenue decreased due to lower demand in the commercial and industrial sectors as a result of continued limited businesses operations and closures.
- Refuse fund revenue decreased due to a reduction of commercial and industrial services due to limited business operations and shelter in place restrictions.
- The decreases mentioned above were partially offset by the increases in Gas Fund revenues due to a 2 percent rate increase and higher residential consumption and in Wastewater Treatment fund as a result of higher billing for capital costs. Storm Drainage and Fiber Optic rates also increased in FY 2021.

Investment earnings decreased \$9.3 million from the prior year mainly due to the impact of negative fair market value adjustments.



### *Business-Type Activities – Expenses*

The table below presents a comparison of the FY 2021 and FY 2020 expenses for the City's Business-type Activities.

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

<u>Business-type Activities</u>	<u>2021</u>	<u>2020</u>	<u>Increase/ (Decrease)</u>
Water	\$ 43.6	\$ 43.0	\$ 0.6
Electric	156.1	142.4	13.7
Fiber Optics	2.5	2.8	(0.3)
Gas	28.6	27.2	1.4
Wastewater Collection	19.6	18.9	0.7
Wastewater Treatment	28.4	28.8	(0.4)
Refuse	29.1	36.9	(7.8)
Storm Drainage	4.9	5.5	(0.6)
Airport	1.5	2.1	(0.6)
<b>Total Functional Expense</b>	<b>314.3</b>	<b>307.6</b>	<b>6.7</b>
 Increase in Net Position before Transfers	 41.3	 63.7	 (22.4)
Transfers	(19.1)	(20.2)	1.1
 Change in Net Position	 22.2	 43.5	 (21.3)
 Net Position, Beginning	 785.0	 741.5	 43.5
<b>Net Position, Ending</b>	<b>\$ 807.2</b>	<b>\$ 785.0</b>	<b>\$ 22.2</b>

Business-type Activities expenses increased \$6.7 million for a total of \$314.3 million mainly due to the following:

- Electric Fund expenses increased \$13.7 million due to higher energy purchase costs and increases in operations and maintenance. The availability of hydroelectric energy resources is lower than average and requires electricity purchases at market rates which were significantly higher during the spring of 2021.
- Gas Fund expenses increased \$1.4 million due to higher commodity purchases as a result of higher natural gas prices.
- Refuse Fund expenses decreased \$7.8 million due to lower payments to GreenWaste of Palo Alto for reimbursement of new waste collection vehicles, decreases in facility rent and a downward adjustment to landfill post closure maintenance as a result of a maintenance cost update that was approved in FY 2021.



## **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, 2021, the City's Governmental Funds reported combined fund balances of \$365.6 million, an increase of \$98.9 million from the prior year mainly due to issuance of COPs for the construction of a public safety building. Approximately 13.4 percent, or \$49.1 million, 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 (\$11.9 million); 2) restricted for particular purposes (\$136.8 million); 3) committed for particular purposes (\$90.0 million); or 4) assigned for particular purposes (\$77.9 million).

Governmental Fund revenues decreased \$13.8 million, or 6.6 percent, from the prior year to \$194.9 million. General Fund revenues decreased \$13.6 million and Capital Projects Fund revenue increased \$1.8 million. Non-major Governmental Funds revenue decreased \$2.0 million primarily due to suspension of most parking enforcement which decreased the demand for parking permits. The violations were partially offset by an increase in housing in-lieu fees and federal revenue.

Governmental Fund expenditures were \$222.1 million, a decrease of \$38.7 million from the prior year. General Fund expenditures decreased \$21.8 million, Capital Projects Fund expenditures decreased by \$18.2 million, and Non-major Governmental Funds expenditures increased by \$1.3 million. Details of significant changes are discussed in the following sections.

Governmental Fund other financing resources increased \$112.3 million, from the prior year to \$126.1 million mainly due to the issuance of COPs for the construction of a public safety building.

### **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 \$75.6 million, compared to \$61.8 million in the prior year. The fund balance is classified as follows: \$9.4 million non-spendable, \$4.6 million committed, \$12.5 million assigned, and \$49.1 million unassigned. The unassigned amount is designated by the City Council for Budget Stabilization Reserve.



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

The City's General Fund revenues totaled \$166.8 million in FY 2021. This represents a decrease of \$13.6 million, or 7.5 percent, compared to the prior year. The year over year change in significant revenue sources is noted in the following table.

GENERAL FUND			
Revenues for the Year Ended June 30			
(in millions)			
Revenues by Source	2021	2020	Increase/ (Decrease)
Property tax	\$ 56.6	\$ 51.1	\$ 5.5
Sales tax	29.1	30.6	(1.5)
Utility user tax	14.6	16.1	(1.5)
Transient occupancy tax	5.2	18.6	(13.4)
Documentary transfer tax	10.6	6.9	3.7
Charges for services	25.1	24.1	1.0
Permits and license	7.3	7.5	(0.2)
Rental income	13.3	16.0	(2.7)
Other	5.0	9.5	(4.5)
Total Revenues	<u>\$ 166.8</u>	<u>\$ 180.4</u>	<u>\$ (13.6)</u>

Property tax revenue increased \$5.5 million, or 10.8 percent due to pre-pandemic assessed value growth and an increase of \$1.7 million in the Excess Educational Revenue Augmentation Fund (ERAF) distribution. The FY 2021 secured and unsecured property tax assessed values growth rates are 7.6 percent and 12.7 percent, respectively, a weighted average of 7.8 percent. These higher assessed values reflect continued strength in commercial and residential real estate markets. Historically, during economic downturns such as a recession and/or a pandemic, impacts to property tax are delayed a year and then the growth rate typically plateaus.

Over a seven-year period, ERAF distribution has grown from \$0.4 million in FY 2014 to \$5.6 million in FY 2021. Excess 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.



Sales tax receipts were \$1.5 million or 4.9 percent, lower than the prior year. The decrease is lower than expected even though there is a significant decline of high-end goods and dining options at regional destinations, such as the Stanford Shopping Center, which was offset by the strong performance in the business to business segment and online sales. As the nation transitions from a shopping center country to online sales, a surge in online retail sales will partially displace tax revenue from traditional industry segments to state and county pools. Online sales data that cannot be tracked to a specific county jurisdiction are allocated to the Santa Clara County sales tax pool and then distributed to local jurisdictions based on local tax percentages. City's average proportion of the county pool sales tax allocation is approximately 5.6 percent, a 1.5 percent decrease compared to the fourth calendar quarter of 2019 (pre-pandemic). The sales tax growth in the second half of FY 2021 is due to high vaccination rates in the Bay Area resulting in increased employment and economic activity.

Utility user tax (UUT) revenues are \$1.5 million, or 9.3 percent, lower compared to prior year due to lower business consumption of electric and telephone services. The telephone UUT receipts declined by \$1.2 million or 19.3 percent due to business closures and shelter in place restrictions which reduced the workforce present in the City.

Transient occupancy tax (TOT) continues to be the revenue source most significantly impacted by the pandemic and fell to \$5.2 million, a \$13.4 million, or 72.0 percent decrease when compared to the prior year. Six hotels, representing 16.3 percent of available rooms remained closed while two other smaller hotels reopened during the fiscal year. However, two Marriott hotels (with around 293 rooms) are newly opened in the middle and end of the fiscal year. The opened hotels average daily room and occupancy rates significantly declined in the first three quarters and partially recovered in the fourth quarter. In FY 2021, the average occupancy rate was 40.6 percent, a 33.4 percent decrease and the average room rate was \$116.90, a 55.9 percent decrease over the prior year.

Documentary transfer tax increased \$3.7 million, or 53.6 percent when compared to prior year due to six large commercial property transactions that occurred in FY2021. 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 \$1.0 million, or 4.1 percent, when compared to prior year due to an increase of golf course revenues by \$2.3 million which due to higher demand to play golf after re-opening during the COVID-19 pandemic. This increase is offset by reduced programs and classes and fewer reviews and inspections due to limited operations caused by COVID-19 restrictions.

Rental income decreased \$2.7 million, or 16.9 percent, when compared to prior year due to lower facility rentals and number of tenants due to limited economic activities and some businesses closures. The City has continued to follow the Santa Clara County Moratorium Order to give protection for small businesses and approved a rent forgiveness program.

Other revenues decreased \$4.5 million, or 47.4 percent, when compared to prior year due to a decrease of investment earnings which resulted from negative fair market value adjustments



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

General Fund expenditures totaled \$160.3 million for FY 2021 compared to \$182.1 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)

<b>Expenditures by Function</b>	<b>2021</b>	<b>2020</b>	<b>Increase/ (Decrease)</b>
Administrative Services	\$ 5.2	\$ 6.0	\$ (0.8)
Public Works	13.3	13.6	(0.3)
Planning and Development Services	15.8	19.3	(3.5)
Police	41.3	45.7	(4.4)
Fire	34.9	36.4	(1.5)
Community Services	26.3	29.6	(3.3)
Library	8.5	10.0	(1.5)
Non-Departmental	4.6	9.2	(4.6)
All other	10.4	12.3	(1.9)
<b>Total Expenditures</b>	<b>\$ 160.3</b>	<b>\$ 182.1</b>	<b>\$ (21.8)</b>

General Fund expenditures decreased by \$21.8 million, or 12.0 percent compared to prior year primarily due to the decrease in salaries and benefits and reduced contract services. In response to financial uncertainties caused by the COVID-19 pandemic, the City adopted various strategies to lower expenses such as implementing furloughs to the Management and Professional Group, leaving some vacant positions unfilled, eliminating a few positions, and deferring wage increases to most of the labor unions. The City also reduced service hours and various operating expenditures such as travel and training, program and project consultants, and other contractual services.

Planning and Development expenses decreased \$3.5 million primarily due to reduced contract services due to reorganized building inspection and plan review.

Police expenses decreased \$4.4 million mainly due to decreases in salaries and benefits, including overtime, as a result of eliminated positions including specialized police teams, detectives, dispatchers, records staff, animal control officers, parking enforcement officers and administration.



Fire expenses decreased \$1.5 million mainly due to decreases in indirect charges such as vehicle replacement allocation and IT support.

Community Services expenses decreased \$3.3 million primarily due to decreases in salaries and benefits and contract services. In response to continued governmental restrictions, Community Services Facilities reduced operating hours in community centers, museums, theater and open space preserves. Special events, art exhibits and teen programs were also reduced or eliminated.

Library expenses decreased \$1.5 million which was attributed to a decrease in salaries and benefits and reduced contract services as a result of reduced library hours at all branches.

Non-Departmental expenditures decreased \$4.6 million due to reduced lease payments for the Cubberley facility and a one-time purchase of the current City Manager's house in FY 2020.

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

Revenues, excluding Charges to Other Funds, were originally budgeted at \$163.1 million. Budget estimates were revised downward by \$3.9 million. The revenue categories that were adjusted are shown in the table below.

<b>GENERAL FUND</b>				
<b><i>Budgeted Revenues for the Year Ended June 30</i></b>				
<b>(in millions)</b>				
<b><u>Budgeted Revenues</u></b>	<b><u>Adopted Budget</u></b>	<b><u>Final Budget</u></b>	<b><u>Increase/ (Decrease)</u></b>	
Property tax	\$ 52.0	\$ 53.2	\$ 1.2	
Sales tax	20.5	25.0	4.5	
Utility user tax	15.1	14.1	(1.0)	
Transient occupancy tax	14.9	5.1	(9.8)	
Documentary transfer tax	4.7	6.9	2.2	
All other	55.9	54.9	(1.0)	
	163.1	159.2	(3.9)	
Charges to other funds	12.0	12.0	-	
Prior year encumbrances and appropriations	-	7.6	7.6	
<b>Total Budgeted Revenues</b>	<b><u>\$ 175.1</u></b>	<b><u>\$ 178.8</u></b>	<b><u>\$ 3.7</u></b>	



Adjustments to the original budget were based on the following:

- Property tax was increased by \$1.2 million due to property assessed value growth and change in ownership.
- Sales tax was increased by \$4.5 million due to the higher than expected receipts.
- Utility user tax decreased by \$1.0 million due to the lower consumption of both utility commodity and telephone.
- Transient occupancy tax decreased by \$9.8 million due to continued declines in hotel activities and rates.
- Documentary transfer tax increased by \$2.2 million based on year-to-date receipts tracking higher than anticipated.

Expenditures, excluding Operating Transfers, were originally budgeted at \$179.1 million and were revised upward by \$8.4 million, for a final budgeted amount of \$187.5 million.

<b>GENERAL FUND</b>				
<b><i>Budgeted Expenditures for the Year Ended June 30</i></b>				
<b>(in millions)</b>				
<b><u>Budgeted Expenditures</u></b>	<b><u>Adopted Budget</u></b>	<b><u>Final Budget</u></b>	<b><u>Increase/ (Decrease)</u></b>	<b><u>Actuals, plus Encumbrances</u></b>
Community Services	\$ 28.4	\$ 28.8	\$ 0.4	\$ 27.8
Fire	33.6	35.4	1.8	35.4
Police	41.7	42.4	0.7	42.4
Library	8.4	8.7	0.3	8.6
Planning and Development Services	17.4	19.6	2.2	18.8
Public Works	18.4	19.1	0.7	18.6
Non-Departmental	8.2	9.3	1.1	9.3
All Other	23.0	24.2	1.2	22.9
<b>Total Budgeted Expenditures</b>	<b><u>\$ 179.1</u></b>	<b><u>\$ 187.5</u></b>	<b><u>\$ 8.4</u></b>	<b>183.8</b>
Less: Charges to Other Funds and Departments				(11.7)
Less: Encumbrances and Reappropriations				(11.8)
<b>Net General Fund Expenditures</b>				<b><u>\$ 160.3</u></b>

Adjustments of \$8.4 million to the original budget were primarily due to the \$7.6 million carry-forward of encumbrances from prior year and reappropriations.



Final actual expenditures totaled \$183.8 million, \$3.7 million lower than the final budget totaling \$187.5 million. As mentioned previously, the Final budget includes encumbrances and reappropriations carried forward from prior year, totaling \$7.6 million. In closing FY 2021, \$11.8 million was encumbered and reappropriated in FY 2022. The actual expenditures were lower as compared with the budget primarily due to reduced contract services.

Transfers out were originally budgeted at \$17.8 million, with the final budget number at \$13.6 million, a decrease of \$4.2 million. The decrease was due to a reduction of the transfers to Capital Project Fund because of decreases in TOT revenues.

### ***Capital Projects Fund***

At the end of the current fiscal year, the fund balance of the Capital Project Fund was \$165.7 million, compared to \$83.6 million in the prior year. The fund balance is restricted for the Public Safety Building (\$90.9 million) and library project (\$0.6 million), committed for Roth building rehabilitation (\$5.2 million) and Cubberley improvements (\$4.7 million) and the remaining balance of \$64.3 million is available for all other capital projects.

Capital Projects Fund revenues were \$11.4 million in FY 2021, an increase of \$1.8 million from the prior year due to federal grant reimbursements while other financing sources were \$118.8 million, an increase of \$87.9 million mainly due to issuance of COPs amounting to \$101.5 million plus \$6.5 premium to finance the construction of a public safety building partially offset by the decrease of operating transfers in from General Fund due to significant decreases in revenues, including TOT.

Capital Project Fund expenditures were \$48.1 million in FY 2021, a decrease of \$18.2 million. To manage resources with funding needs and balance for the City's severe decrease in TOT revenues resulting from the pandemic, the most critical capital investments were prioritized and project budget for other projects were deferred into later years or beyond the five-year capital plan.

### ***Non-Major Governmental Funds***

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



## FINANCIAL ANALYSIS OF ENTERPRISE FUNDS

At June 30, 2021, the City's Enterprise Funds reported total net position of \$807.2 million, an increase of \$22.2 million or 2.8 percent from the prior year. All Enterprise funds contributed to this increase except Electric Fund.

The changes in net position in the Enterprise Funds are summarized in the following table.

<b>ENTERPRISE FUNDS</b> <b>Change in Net Position for the Year Ended June 30</b> <b>(in millions)</b>			
<b>Fund Name</b>	<b>2021</b>	<b>2020</b>	<b>Increase/ (Decrease)</b>
Water	\$ 6.6	\$ 8.0	\$ (1.4)
Electric	(4.8)	18.6	(23.4)
Fiber Optics	1.5	2.9	(1.4)
Gas	3.5	3.0	0.5
Wastewater Collection	0.7	2.1	(1.4)
Wastewater Treatment	3.1	0.3	2.8
Refuse	1.9	(3.1)	5.0
Storm Drainage	3.0	2.2	0.8
Airport	6.7	5.6	1.1
<b>Total Change in Net Position</b>	<b>\$ 22.2</b>	<b>\$ 39.6</b>	<b>\$ (17.4)</b>

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

- The Water and Fiber Optic Funds operating income has no significant change, however, the change in net position for both funds decreased \$1.4 million from prior year due to decline in other revenues specifically interest earnings due to the impact of negative fair market value adjustments.
- The change in net position for Electric Fund decreased \$23.4 million from prior year due to decrease in commercial retail revenues as a result of lower consumption, a decrease in investment earnings due to the impact of negative fair market value adjustments, an increase in purchases of electricity due to low hydroelectric supply, and an increase in operations and maintenance expenses.
- The change in net position for Wastewater Collection Fund decreased \$1.4 million due to lower non-residential sewer charges, lower non-operating revenue including interest earnings and an increase in operating expenses
- The change in net position for Wastewater Treatment Fund increased \$2.8 million due to higher billing to partners for capital costs and decreases in operations and maintenance expenses.
- The change in net position of Refuse Fund increased \$5.0 million due to a decrease in operating expenses as a result of lower payment to GreenWaste of Palo Alto for reimbursements of new waste collections and vehicles, a decrease in facility rent and downward adjustment to landfill post closure maintenance. The decrease of operating expenses was partially offset by lower revenues including investment earnings.



## 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 6 to the financial statements.

CAPITAL ASSETS AT JUNE 30 (in millions)			
	2021	2020	Increase/ (Decrease)
<b>Governmental activities</b>			
<b>Capital Assets</b>			
Land and improvements	\$ 82.1	\$ 82.2	(0.1)
Street trees	14.8	14.8	-
Construction in progress	137.8	139.4	(1.6)
Building and improvements	272.1	251.1	21.0
Intangible assets	3.8	3.8	-
Equipment	17.2	15.7	1.5
Roadway network	335.3	335.2	0.1
Recreation and open space network	35.2	35.2	-
Less accumulated depreciation	(319.3)	(302.5)	(16.8)
<b>Internal Service funds</b>			
Construction in progress	5.6	2.7	2.9
Equipment	63.1	63.5	(0.4)
Less accumulated depreciation	(45.7)	(44.8)	(0.9)
<b>Total Governmental Activities</b>	<b>\$ 602.0</b>	<b>\$ 596.3</b>	<b>\$ 5.7</b>
<b>Business-Type Activities</b>			
Land	\$ 5.0	\$ 5.0	\$ -
Construction in progress	129.0	121.1	7.9
Buildings and improvements	74.5	74.5	-
Infrastructure	0.6	0.6	-
Transmission, distribution and treatment systems	914.8	884.8	30.0
Less accumulated depreciation	(415.4)	(392.8)	(22.6)
<b>Total Business-type Activities</b>	<b>\$ 708.5</b>	<b>\$ 693.2</b>	<b>\$ 15.3</b>



Governmental Activities' capital assets net of depreciation increased by \$5.7 million from the prior year. The increase was primarily due to activity in various projects such as the Highway 101 Pedestrian / Bicycle overpass, the Public Safety Building and California Avenue Parking Garage offset with retirements.

The City Council approved a \$125.8 million Infrastructure Plan (IP) in June 2014, which includes projects such as a new Public Safety Building, replacement of two Fire Stations, a Bike and Pedestrian plan and two parking garages. Through the development of the 2021-2025 Capital Improvement Plan (CIP), the IP projects were updated resulting in a revised Infrastructure Plan of \$260.5 million. These projects will be funded partially by debt to be repaid with voter-approved increases of 3.5 percent in the TOT rate and from other sources such as impact fees and Stanford University Medical Center development agreement monies. Staff is continually assessing the COVID-19 impact to maintain funding for these projects.

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

- Public Safety Building - \$97.1 million
- Charleston Arastradero Corridor – \$7.4 million
- Municipal Service Center Improvements – \$6.0 million
- Churchill Ave/Alma – \$4.2 million
- Railroad Grade Separation – \$4.0 million
- Highway 101 Pedestrian/Bicycle Overpass – \$3.7 million
- Vehicle Replacements – \$3.3 million

Business-type Activities' capital assets net of depreciation increased by \$15.3 million from the prior year. The increase is primarily due to, Electric, Wastewater Collection, Wastewater Treatment, Storm Drain and Airport Funds.

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

- Seismic Water System Upgrade – \$5.3 million
- Gas Main Replacement Project 23 – \$6.9 million
- Primary Sedimentation Tank Rehabilitation – \$11.8 million
- Airport Apron Reconstruction Phase 1 – \$23.3 million

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 6.



## DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 7 to the financial statements. The City's debt as of June 30, 2021 is shown in the following table.

LONG-TERM DEBT AT JUNE 30			
(in millions)			
	2021	2020	Increase/ (Decrease)
<b>Governmental Activities</b>			
<b>General Long-Term Obligations</b>			
General Obligation Bonds			
2010	\$ 42.0	\$ 43.3	\$ (1.3)
Add: unamortized premium	2.3	2.5	(0.2)
2013A	15.0	15.5	(0.5)
Add: unamortized premium	0.7	0.8	(0.1)
Certificates of Participation			
2018 Capital Improvement Projects	8.6	8.7	(0.1)
2019 California Ave Parking Garage			
Series A & B	36.4	37.0	(0.6)
Add: unamortized premium	4.5	4.7	(0.2)
2021 Public Safety Building	101.5	-	101.5
Add: unamortized premium	6.5	-	6.5
<b>Total Governmental Activities</b>	<b>\$ 217.5</b>	<b>\$ 112.5</b>	<b>\$ 105.0</b>
<b>Business-type Activities</b>			
<b>Enterprise Long-Term Obligations</b>			
Utility Revenue Bonds			
1999 Refunding	\$ 5.1	\$ 6.7	\$ (1.6)
2009 Series A	24.3	25.5	(1.2)
2011 Refunding	6.7	7.9	(1.2)
Add: unamortized premium	0.4	0.5	(0.1)
Energy Tax Credit Bonds			
2007 Series A	0.1	0.2	(0.1)
Less: unamortized discount	-	(0.1)	0.1
State Water Resources Loan			
2007	3.6	4.0	(0.4)
2009	4.8	5.3	(0.5)
2017	23.9	24.5	(0.6)
<b>Total Business-type Activities</b>	<b>\$ 68.9</b>	<b>\$ 74.5</b>	<b>\$ (5.6)</b>

City-wide long-term debt increased by a total of \$99.4 million mainly due the issuance of COPs for the construction of the public safety building in the amount of \$101.5 million plus \$6.5 million premium which was offset by the scheduled debt retirement.



### ***ECONOMIC OUTLOOK***

The COVID-19 pandemic came with the strict orders for the safety of the public which resulted in a drastic drop in revenues. In FY2021, the City took swift, decisive, and difficult action to balance the budget by prioritizing essential services and reducing or eliminating discretionary services, while continue to address its long-term liabilities such as pension and OPEB obligations. The fiscal challenges remain constant as the COVID-19 pandemic continues. The City will maintain services at the same levels in previous year for the upcoming fiscal year, but these service levels are not sustainable for the fiscal health of the City in the long term. The FY 2022 adopted Operating and Capital reflects current fiscal reality, however, as hopeful signs for recovery continue, the City will respond quickly and adapt should more moderate growth occur than forecasted.

More information about 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, 4<sup>th</sup> Floor, Palo Alto, California. The Department can also be contacted by email at: [adminsucs@cityofpaloalto.org](mailto:adminsucs@cityofpaloalto.org). This report and other financial reports can be viewed on the City of Palo Alto website at: [www.cityofpaloalto.org](http://www.cityofpaloalto.org). On the home page, select Departments, select Administrative Services, and select Financial Reporting <https://www.cityofpaloalto.org/Departments/Administrative-Services/Financial-Reporting>. Within Financial Reporting, there are links to reports by title and reporting date.



**CITY OF PALO ALTO**  
**Statement of Net Position**  
**June 30, 2021**  
**(Amounts in thousands)**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash and investments available for operations (Note 3)	\$ 310,091	\$ 282,271	\$ 592,362
Receivables, net:			
Accounts and intergovernmental	16,099	43,321	59,420
Interest receivable	1,544	1,405	2,949
Notes and loans receivable (Note 5)	53,677	-	53,677
Internal balances (Note 4)	(298)	298	-
Deposits	15	-	15
Due from other government agencies	-	2,400	2,400
Inventory of materials and supplies, prepaids and deposits	5,615	244	5,859
Restricted cash and investments with fiscal agents and trustees (Note 3)	133,264	3,340	136,604
Capital assets (Note 6):			
Nondepreciable	243,923	133,909	377,832
Depreciable, net of accumulated depreciation	358,056	574,600	932,656
Total assets	1,121,986	1,041,788	2,163,774
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Unamortized loss from refunding	-	149	149
Pension related (Note 11)	45,531	18,119	63,650
OPEB related (Note 12)	15,271	6,012	21,283
Total deferred outflows of resources	60,802	24,280	85,082
<b>LIABILITIES:</b>			
Accounts payable and accruals	14,812	16,432	31,244
Accrued salaries and benefits	2,679	1,224	3,903
Unearned revenue	9,400	-	9,400
Accrued compensated absences (Note 1):			
Due in one year	6,327	-	6,327
Due in more than one year	9,320	-	9,320
Claims payable (Notes 14 and 16):			
Due in one year	6,811	-	6,811
Due in more than one year	38,339	-	38,339
Landfill post-closure liability (Note 9):			
Due in more than one year	-	6,179	6,179
Net pension liabilities (Note 11):			
Due in more than one year	349,296	123,787	473,083
Net OPEB liabilities (Note 12):			
Due in more than one year	88,883	35,915	124,798
Long-term debt (Note 7):			
Due in one year	3,264	5,757	9,021
Due in more than one year	214,270	63,153	277,423
Total liabilities	743,401	252,447	995,848
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
OPEB related (Note 12)	16,250	6,402	22,652
<b>NET POSITION (Note 10):</b>			
Net Investment in capital assets	480,620	642,018	1,122,638
Restricted for:			
Transportation mitigation	12,512	-	12,512
Public benefit	18,282	-	18,282
Supplemental pension	37,089	-	37,089
Others	6,077	-	6,077
Debt service	3,749	3,340	7,089
Nonexpendable - Eyerly Family	2,556	-	2,556
Total restricted net position	80,265	3,340	83,605
Unrestricted	(137,748)	161,861	24,113
Total net position	\$ 423,137	\$ 807,219	\$ 1,230,356

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, 2021**  
**(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	\$ 178	\$ -	\$ -	\$ -	\$ (178)	\$ -	\$ (178)
City Manager	2,466	-	-	-	(2,466)	-	(2,466)
City Attorney	2,292	-	-	-	(2,292)	-	(2,292)
City Clerk	702	-	-	-	(702)	-	(702)
City Auditor	641	-	-	-	(641)	-	(641)
Administrative Services	22,985	1,150	457	-	(21,378)	-	(21,378)
Human Resources	2,518	-	-	-	(2,518)	-	(2,518)
Public Works	52,727	937	-	9,748	(42,042)	-	(42,042)
Planning and Development Services	18,141	21,228	1,191	-	4,278	-	4,278
Office of Transportation	3,636	80	-	118	(3,438)	-	(3,438)
Police	43,627	2,008	414	-	(41,205)	-	(41,205)
Fire	37,131	9,127	888	51	(27,065)	-	(27,065)
Community Services	30,289	20,893	49	1,409	(7,938)	-	(7,938)
Library	11,145	47	34	-	(11,064)	-	(11,064)
Interest on long-term debt	6,317	-	-	-	(6,317)	-	(6,317)
Total Governmental Activities	234,795	55,470	3,033	11,326	(164,966)	-	(164,966)
Business-Type Activities:							
Water	43,556	48,812	462	533	-	6,251	6,251
Electric	156,105	162,240	-	-	-	6,135	6,135
Fiber Optics	2,529	3,936	-	-	-	1,407	1,407
Gas	28,556	39,520	-	-	-	10,964	10,964
Wastewater Collection	19,577	20,484	-	239	-	1,146	1,146
Wastewater Treatment	28,403	30,522	-	-	-	2,119	2,119
Refuse	29,138	30,636	-	-	-	1,498	1,498
Storm Drainage	4,897	7,785	-	-	-	2,888	2,888
Airport	1,499	2,585	-	5,619	-	6,705	6,705
Total Business-Type Activities	314,260	346,520	462	6,391	-	39,113	39,113
Total	\$ 549,055	\$ 401,990	\$ 3,495	\$ 17,717	(164,966)	39,113	(125,853)
General Revenues:							
Taxes:							
Property tax					60,901	-	60,901
Sales tax					29,127	-	29,127
Utility user tax					14,642	-	14,642
Transient occupancy tax					5,179	-	5,179
Documentary transfer tax					10,627	-	10,627
Other taxes					2,844	-	2,844
Investment earnings					4,939	2,187	7,126
Miscellaneous					183	-	183
Transfers (Note 4)					19,087	(19,087)	-
Total general revenues and transfers					147,529	(16,900)	130,629
Change in net position					(17,437)	22,213	4,776
Net position, beginning of year					440,574	785,006	1,225,580
Net position, end of year					\$ 423,137	\$ 807,219	\$ 1,230,356

See accompanying notes to the basic financial statements.



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**CITY OF PALO ALTO**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2021**  
**(Amounts in thousands)**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Cash and investments available for operations (Note 3)	\$ 67,397	\$ 79,130	\$ 66,758	\$ 213,285
Receivables, net:				
Accounts and intergovernmental	14,053	1,429	519	16,001
Interest receivable	645	26	389	1,060
Notes and loans receivable (Note 5)	826	-	52,851	53,677
Deposits	15	-	-	15
Prepaid items	291	-	-	291
Due from other fund (Note 4)	943	-	-	943
Advances to other funds (Note 4)	3,036	-	-	3,036
Inventory of materials and supplies	5,208	-	-	5,208
Restricted cash and investments with fiscal agents (Note 3)	-	91,520	4,655	96,175
<b>Total assets</b>	<b>\$ 92,414</b>	<b>\$ 172,105</b>	<b>\$ 125,172</b>	<b>\$ 389,691</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:</b>				
<b>Liabilities:</b>				
Accounts payable and accruals	\$ 5,115	\$ 5,350	\$ 495	\$ 10,960
Accrued salaries and benefits	2,254	141	34	2,429
Unearned revenue	9,400	-	-	9,400
Due to other funds (Note 4)	-	-	341	341
<b>Total liabilities</b>	<b>16,769</b>	<b>5,491</b>	<b>870</b>	<b>23,130</b>
<b>Deferred inflows of resources</b>				
Deferred inflows of resources - Unavailable revenue	9	910	-	919
<b>Total liabilities and deferred inflows of resources</b>	<b>16,778</b>	<b>6,401</b>	<b>870</b>	<b>24,049</b>
<b>Fund balances (Note 10):</b>				
<b>Nonspendable:</b>				
Deposits	15	-	-	15
Prepaid items	291	-	-	291
Inventories	5,208	-	-	5,208
Advances to other funds	3,036	-	-	3,036
Notes and loans receivable	826	-	-	826
Eyerly family	-	-	2,556	2,556
<b>Restricted for:</b>				
Transportation mitigation	-	-	12,512	12,512
Federal revenue	-	-	5,293	5,293
Street improvement	-	-	28	28
Local law enforcement	-	-	756	756
Public safety building	-	90,922	-	90,922
Library bond project	-	598	-	598
Public benefit	-	-	18,282	18,282
Debt service	-	-	8,404	8,404
<b>Committed for:</b>				
Development services	3,950	-	-	3,950
Roth building rehabilitation	-	5,179	-	5,179
Cubberley improvements	-	4,726	-	4,726
Developer impact fees	-	-	13,300	13,300
Housing in-lieu	-	-	58,883	58,883
Special districts	-	-	3,186	3,186
Edgewood Plaza	701	-	-	701
Downtown business	-	-	50	50
<b>Assigned for:</b>				
Unrealized gains on investments	1,891	-	1,052	2,943
Capital projects	-	64,279	-	64,279
Other general government purposes	5,912	-	-	5,912
Electric charger	30	-	-	30
Reappropriations	4,687	-	-	4,687
<b>Unassigned for:</b>				
Budget Stabilization	49,089	-	-	49,089
<b>Total fund balances</b>	<b>75,636</b>	<b>165,704</b>	<b>124,302</b>	<b>365,642</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 92,414</b>	<b>\$ 172,105</b>	<b>\$ 125,172</b>	<b>\$ 389,691</b>

See accompanying notes to the basic financial statements.



**CITY OF PALO ALTO**  
**Reconciliation of the Balance Sheet of Governmental Funds to**  
**the Statement of Net Position - Governmental Activities**  
**June 30, 2021**  
**(Amounts in thousands)**

Total fund balances reported on the governmental funds balance sheet	\$ 365,642
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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	60,802
Deferred inflows of resources	(16,250)

Certain receivables are not available to pay for current period expenditures and therefore are deferred in the governmental funds.	919
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Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds.	601,979
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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)	80,520
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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	(2,143)
Net pension liabilities (Note 11)	(349,296)
Net OPEB liabilities (Note 12)	(88,883)
Claims payable (Note 14 and 16)	(12,619)
Long-term debt (Note 7)	<u>(217,534)</u>

Net position of governmental activities	<u><u>\$ 423,137</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, 2021**  
**(Amounts in thousands)**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Property tax	\$ 56,572	\$ -	\$ 4,329	\$ 60,901
Special assessments	-	-	5	5
Sales tax	29,127	-	-	29,127
Utility user tax	14,642	-	-	14,642
Transient occupancy tax	5,179	-	-	5,179
Documentary transfer tax	10,627	-	-	10,627
Other taxes and fines	683	-	2,816	3,499
Charges for services	25,105	1	-	25,106
Intergovernmental	3,828	10,087	1,337	15,252
Licenses, permits and fees	7,261	-	2,161	9,422
Investment earnings	(161)	1,034	175	1,048
Rental income	13,293	-	-	13,293
Housing In-Lieu - residential	-	-	5,804	5,804
Other revenue	632	247	154	1,033
Total revenues	166,788	11,369	16,781	194,938
<b>EXPENDITURES:</b>				
Current:				
City Council	224	-	-	224
City Manager	2,304	-	-	2,304
City Attorney	2,149	-	-	2,149
City Clerk	748	-	-	748
City Auditor	645	-	-	645
Administrative Services	5,202	-	261	5,463
Human Resources	2,421	-	-	2,421
Public Works	13,265	-	1,427	14,692
Planning and Development Services	15,830	-	1,285	17,115
Office of Transportation	1,936	-	1,437	3,373
Police	41,328	-	36	41,364
Fire	34,918	-	-	34,918
Community Services	26,254	-	236	26,490
Library	8,528	-	-	8,528
Non-Departmental	4,599	-	255	4,854
Capital outlay	-	48,114	-	48,114
Debt service:				
Principal	-	-	2,595	2,595
Interest and fiscal charges	-	-	6,147	6,147
Total expenditures	160,351	48,114	13,679	222,144
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	6,437	(36,745)	3,102	(27,206)
<b>OTHER FINANCING SOURCES (USES):</b>				
Issuance of debt	-	95,476	6,029	101,505
Original debt premium	-	6,524	-	6,524
Proceeds from sale of capital assets	100	-	-	100
Transfers in (Note 4)	20,880	19,198	3,480	43,558
Transfers out (Note 4)	(13,620)	(2,380)	(9,564)	(25,564)
Total other financing sources (uses)	7,360	118,818	(55)	126,123
Change in fund balances	13,797	82,073	3,047	98,917
FUND BALANCES, BEGINNING OF YEAR	61,839	83,631	121,255	266,725
FUND BALANCES, END OF YEAR	\$ 75,636	\$ 165,704	\$ 124,302	\$ 365,642

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, 2021**  
**(Amounts in thousands)**

Net change in fund balances - total governmental funds \$ 98,917

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	33,525
Depreciation expense is deducted from fund balance (depreciation expense is net of internal service fund depreciation of \$3,153) (Note 6), which has already been allocated through the internal service fund activities below	(17,136)
Disposal of capital assets	(12,291)

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	41,324
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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	(50,170)
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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 paid during the year	2,595
Proceeds from debt issuance	(101,505)
Original debt premium	(6,524)
Change in interest payable	(575)
Amortization of bond premium	405
Change in claims payable	(12,619)

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	(563)
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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	<u>7,180</u> <u>\$ (17,437)</u>
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See accompanying notes to the basic financial statements.



**CITY OF PALO ALTO**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	Budgeted Amounts		Actual, Budgetary Basis	Variance with Final Budget
	Adopted	Final		
<b>REVENUES:</b>				
Property tax	\$ 52,000	\$ 53,173	\$ 56,572	\$ 3,399
Sales tax	20,500	25,030	29,127	4,097
Utility user tax	15,100	14,080	14,642	562
Transient occupancy tax	14,900	5,123	5,179	56
Documentary transfer tax	4,700	6,875	10,627	3,752
Other taxes and fines	1,925	392	683	291
Charges for services	25,984	24,414	25,105	691
Intergovernmental	2,448	4,580	4,222	(358)
Licenses, permits and fees	7,770	8,366	7,708	(658)
Investment earnings	1,145	1,145	1,062	(83)
Rental income	15,949	15,331	13,293	(2,038)
Other revenues	674	666	732	66
	<u>163,095</u>	<u>159,175</u>	<u>168,952</u>	<u>9,777</u>
Charges to other funds and departments	11,992	11,992	11,661	(331)
Prior year encumbrances	-	7,570	7,570	-
Total revenues	<u>175,087</u>	<u>178,737</u>	<u>188,183</u>	<u>9,446</u>
<b>EXPENDITURES:</b>				
Current:				
City Council	419	509	366	143
City Manager	3,161	3,562	3,492	70
City Attorney	3,485	3,744	3,589	155
City Clerk	1,245	1,293	1,147	146
City Auditor	828	981	962	19
Administrative Services	8,362	8,338	7,897	441
Human Resources	3,554	3,622	3,545	77
Public Works	18,397	19,089	18,553	536
Planning and Development Services	17,386	19,611	18,782	829
Office of Transportation	1,904	2,139	2,010	129
Police	41,733	42,441	42,441	-
Fire	33,607	35,354	35,354	-
Community Services	28,379	28,839	27,769	1,070
Library	8,421	8,655	8,636	19
Non-Departmental	8,237	9,332	9,259	73
Total expenditures	<u>179,118</u>	<u>187,509</u>	<u>183,802</u>	<u>3,707</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(4,031)</u>	<u>(8,772)</u>	<u>4,381</u>	<u>13,153</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	21,359	21,154	21,154	-
Transfers out	(17,801)	(13,620)	(13,620)	-
Total other financing sources (uses)	<u>3,558</u>	<u>7,534</u>	<u>7,534</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, BUDGETARY BASIS	<u>\$ (473)</u>	<u>\$ (1,238)</u>	<u>11,915</u>	<u>\$ 13,153</u>
Adjustment to Budgetary Basis:				
Unrealized gain/loss on investments			(1,297)	
Changes in interfund balances			(197)	
Current year encumbrances and reappropriations			10,946	
Prior year encumbrances and reappropriations			(7,570)	
CHANGE IN FUND BALANCE, GAAP BASIS			<u>13,797</u>	
FUND BALANCE AT BEGINNING OF YEAR, GAAP BASIS			<u>61,839</u>	
FUND BALANCE AT END OF YEAR, GAAP BASIS			<u>\$ 75,636</u>	

See accompanying notes to the basic financial statements.



**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Net Position**  
**June 30, 2021**  
**(Amounts in thousands)**

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
<b>ASSETS:</b>				
Current assets:				
Cash and investments available for operations (Note 3)	\$ 46,602	\$ 107,044	\$ 35,983	\$ 30,484
Accounts receivable, net of allowance of \$1,551	6,636	19,244	864	2,996
Interest receivable	228	540	178	149
Due from other government agencies	-	-	-	-
Inventory of materials and supplies	-	-	-	-
Restricted cash and investments with fiscal agents and trustees (Note 3)	2,906	-	-	434
Total current assets	56,372	126,828	37,025	34,063
Noncurrent assets:				
Due from other government agencies	-	-	-	-
Deposits	-	44	-	-
Prepaid expense	67	-	-	-
Capital assets (Note 6):				
Nondepreciable	17,926	35,248	2,236	17,925
Depreciable, net	115,588	174,828	7,075	93,347
Total noncurrent assets	133,581	210,120	9,311	111,272
Total assets	189,953	336,948	46,336	145,335
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Unamortized loss from refunding	65	-	-	84
Pension related (Note 11)	2,660	6,164	349	2,740
OPEB related (Note 12)	757	2,284	83	961
Total deferred outflows of resources	3,482	8,448	432	3,785
<b>LIABILITIES:</b>				
Current liabilities:				
Accounts payable and accruals	2,175	4,663	275	1,185
Accrued salaries and benefits	176	413	19	182
Due to other funds	-	-	-	-
Accrued compensated absences (Note 1)	-	-	-	-
Current portion of long term debt (Note 7)	1,852	100	-	693
Accrued claims payable (Note 14)	-	-	-	-
Total current liabilities	4,203	5,176	294	2,060
Noncurrent liabilities:				
Accrued compensated absences (Note 1)	-	-	-	-
Accrued claims payable (Note 14)	-	-	-	-
Advance from other fund (Note 4)	-	-	-	-
Landfill post-closure liability (Note 9)	-	-	-	-
Net pension liabilities (Note 11)	16,803	40,376	2,587	17,532
Net OPEB liabilities (Note 12)	4,009	13,022	67	5,786
Long term debt, net of unamortized discounts/premiums (Note 7)	26,051	(5)	-	3,223
Total noncurrent liabilities	46,863	53,393	2,654	26,541
Total liabilities	51,066	58,569	2,948	28,601
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
OPEB related (Note 12)	802	2,495	17	1,024
<b>NET POSITION (Note 10):</b>				
Net Investment in capital assets	105,676	209,851	9,311	107,440
Restricted for:				
Debt service	2,906	-	-	434
Supplemental pension	-	-	-	-
Unrestricted (deficit)	32,985	74,481	34,492	11,621
Total net position	\$ 141,567	\$ 284,332	\$ 43,803	\$ 119,495

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



Business-Type Activities-Enterprise Funds						Governmental Activities - Internal Service Funds
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Non-Major Airport	Totals	
\$ 9,358	\$ 16,076	\$ 28,363	\$ 8,361	\$ -	\$ 282,271	\$ 96,806
2,709	2,601	3,297	890	4,084	43,321	98
46	83	139	42	-	1,405	484
-	300	-	-	-	300	-
-	-	-	-	-	-	116
-	-	-	-	-	3,340	37,089
<u>12,113</u>	<u>19,060</u>	<u>31,799</u>	<u>9,293</u>	<u>4,084</u>	<u>330,637</u>	<u>134,593</u>
-	2,100	-	-	-	2,100	-
-	-	-	-	-	44	-
-	133	-	-	-	200	-
4,784	11,152	1,952	12,121	30,565	133,909	5,587
<u>88,204</u>	<u>58,783</u>	<u>3,076</u>	<u>30,801</u>	<u>2,898</u>	<u>574,600</u>	<u>17,354</u>
<u>92,988</u>	<u>72,168</u>	<u>5,028</u>	<u>42,922</u>	<u>33,463</u>	<u>710,853</u>	<u>22,941</u>
<u>105,101</u>	<u>91,228</u>	<u>36,827</u>	<u>52,215</u>	<u>37,547</u>	<u>1,041,490</u>	<u>157,534</u>
-	-	-	-	-	149	-
1,256	3,355	765	695	135	18,119	2,578
<u>368</u>	<u>930</u>	<u>422</u>	<u>152</u>	<u>55</u>	<u>6,012</u>	<u>844</u>
<u>1,624</u>	<u>4,285</u>	<u>1,187</u>	<u>847</u>	<u>190</u>	<u>24,280</u>	<u>3,422</u>
667	1,248	3,127	127	2,965	16,432	1,709
91	242	46	37	18	1,224	250
-	-	-	-	602	602	-
-	-	-	-	-	-	6,327
110	2,187	-	815	-	5,757	-
-	-	-	-	-	-	6,811
<u>868</u>	<u>3,677</u>	<u>3,173</u>	<u>979</u>	<u>3,585</u>	<u>24,015</u>	<u>15,097</u>
-	-	-	-	-	-	9,320
-	-	-	-	-	-	25,720
-	-	-	-	3,036	3,036	-
-	-	6,179	-	-	6,179	-
9,624	24,633	6,661	4,682	889	123,787	17,548
<u>2,212</u>	<u>6,874</u>	<u>2,458</u>	<u>1,083</u>	<u>404</u>	<u>35,915</u>	<u>4,800</u>
<u>238</u>	<u>31,896</u>	<u>-</u>	<u>1,750</u>	<u>-</u>	<u>63,153</u>	<u>-</u>
<u>12,074</u>	<u>63,403</u>	<u>15,298</u>	<u>7,515</u>	<u>4,329</u>	<u>232,070</u>	<u>57,388</u>
<u>12,942</u>	<u>67,080</u>	<u>18,471</u>	<u>8,494</u>	<u>7,914</u>	<u>256,085</u>	<u>72,485</u>
392	1,001	449	163	59	6,402	897
92,640	38,252	5,028	40,357	33,463	642,018	22,941
-	-	-	-	-	3,340	-
-	-	-	-	-	-	37,089
<u>751</u>	<u>(10,820)</u>	<u>14,066</u>	<u>4,048</u>	<u>(3,699)</u>	<u>157,925</u>	<u>27,544</u>
<u>\$ 93,391</u>	<u>\$ 27,432</u>	<u>\$ 19,094</u>	<u>\$ 44,405</u>	<u>\$ 29,764</u>	<u>803,283</u>	<u>\$ 87,574</u>
						3,936
						<u>\$ 807,219</u>

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, 2021**  
**(Amounts in thousands)**

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
<b>OPERATING REVENUES:</b>				
Sales to:				
Customers	\$ 44,154	\$ 124,153	\$ 2,878	\$ 36,583
City departments	2,532	4,167	1,045	542
Surplus energy	-	9,286	-	-
Service connection charges and miscellaneous	1,239	942	12	845
Charges for services	-	-	-	-
Other	887	23,692	1	1,550
Total operating revenues	<u>48,812</u>	<u>162,240</u>	<u>3,936</u>	<u>39,520</u>
<b>OPERATING EXPENSES:</b>				
Purchase of utilities:				
Retail purchase of utilities	21,935	92,088	-	12,750
Surplus energy	-	6,373	-	-
Administrative and general	5,771	9,605	873	4,285
Engineering (operating)	663	2,409	-	571
Resource management and energy efficiency	1,216	6,597	-	968
Operations and maintenance	7,401	17,191	1,249	6,225
Rent	2,225	5,950	52	471
Depreciation	3,127	8,637	420	3,409
Claims payments and changes in estimated self-insurance liability	-	-	-	-
Refund of charges for services	-	-	-	-
Employment benefits	-	-	-	-
Total operating expenses	<u>42,338</u>	<u>148,850</u>	<u>2,594</u>	<u>28,679</u>
Operating income	<u>6,474</u>	<u>13,390</u>	<u>1,342</u>	<u>10,841</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment earnings	366	941	268	205
Interest expense	(1,476)	(7,760)	-	(104)
Gain on disposal of capital assets	-	-	-	-
Loss on disposal of capital assets	(8)	(70)	-	(49)
Other nonoperating revenues	462	-	-	-
Total nonoperating revenues (expenses)	<u>(656)</u>	<u>(6,889)</u>	<u>268</u>	<u>52</u>
Income before transfers and capital contributions	5,818	6,501	1,610	10,893
Capital contributions	533	-	-	-
Transfers in (Note 4)	557	2,582	-	-
Transfers out (Note 4)	(268)	(13,945)	(118)	(7,369)
Change in net position	6,640	(4,862)	1,492	3,524
NET POSITION, BEGINNING OF YEAR	<u>134,927</u>	<u>289,194</u>	<u>42,311</u>	<u>115,971</u>
NET POSITION, END OF YEAR	<u>\$ 141,567</u>	<u>\$ 284,332</u>	<u>\$ 43,803</u>	<u>\$ 119,495</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		
\$ 19,654	\$ 18,883	\$ 27,374	\$ 7,275	\$ 1,815	\$ 282,769	\$ -	
162	10,587	860	434	-	20,329	-	
-	-	-	-	-	9,286	-	
263	-	-	-	-	3,301	-	
-	-	-	-	-	-	115,429	
405	1,052	2,402	76	770	30,835	200	
20,484	30,522	30,636	7,785	2,585	346,520	115,629	
10,542	-	17,474	-	-	154,789	-	
-	-	-	-	-	6,373	-	
2,264	-	1,342	1,135	698	25,973	13,212	
351	2,359	260	253	-	6,866	-	
-	-	-	1,127	-	9,908	-	
3,413	20,387	8,529	1,168	632	66,195	12,765	
252	-	981	19	-	9,950	-	
2,849	4,143	81	871	69	23,606	3,153	
-	-	-	-	-	-	8,745	
-	-	-	-	-	-	115	
-	-	-	-	-	-	75,775	
19,671	26,889	28,667	4,573	1,399	303,660	113,765	
813	3,633	1,969	3,212	1,186	42,860	1,864	
42	159	148	77	(19)	2,187	3,891	
(24)	(721)	(197)	(174)	(74)	(10,530)	-	
-	-	-	-	-	-	385	
(1)	-	-	-	-	(128)	-	
-	-	-	-	-	462	5	
17	(562)	(49)	(97)	(93)	(8,009)	4,281	
830	3,071	1,920	3,115	1,093	34,851	6,145	
239	-	-	-	5,619	6,391	-	
-	-	-	-	-	3,139	3,797	
(342)	-	(30)	(154)	-	(22,226)	(2,704)	
727	3,071	1,890	2,961	6,712	22,155	7,238	
92,664	24,361	17,204	41,444	23,052		80,336	
\$ 93,391	\$ 27,432	\$ 19,094	\$ 44,405	\$ 29,764		\$ 87,574	

58

\$ 22,213

See accompanying notes to the basic financial statements.



**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
Cash flows from operating activities:				
Cash received from customers	\$ 45,811	\$ 141,628	\$ 3,130	\$ 36,977
Cash payments to suppliers for goods and services	(30,814)	(115,045)	(992)	(16,679)
Cash payments to employees	(10,576)	(23,010)	(1,246)	(9,123)
Internal activity- receipts (payments) from (to) other funds	2,532	4,167	1,045	542
Other receipts	887	23,692	1	1,550
Net cash provided by operating activities	7,840	31,432	1,938	13,267
Cash flows from noncapital financing activities:				
Repayment of loans from other funds	-	-	-	-
Interest subsidy received from Build America Bonds	462	-	-	-
Transfers in	557	2,582	-	-
Transfers out	(268)	(13,945)	(118)	(7,369)
Net cash provided by (used in) noncapital financing activities	751	(11,363)	(118)	(7,369)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(3,549)	(12,741)	(398)	(3,543)
Proceeds from sale of capital assets	-	-	-	-
Capital grants and contributions	533	-	-	-
Principal paid on long-term debt	(1,774)	(99)	-	(667)
Interest paid on long-term debt	(1,501)	(7,755)	-	(134)
Net cash used in capital and related financing activities	(6,291)	(20,595)	(398)	(4,344)
Cash flows from investing activities:				
Investment interest received (expenses paid)	379	975	278	211
Net cash provided by investing activities	379	975	278	211
Net change in cash and cash equivalents	2,679	449	1,700	1,765
Cash and cash equivalents, beginning of year	46,829	106,595	34,283	29,153
Cash and cash equivalents, end of year	\$ 49,508	\$ 107,044	\$ 35,983	\$ 30,918
Financial statement presentation:				
Cash and investments available for operations	\$ 46,602	\$ 107,044	\$ 35,983	\$ 30,484
Restricted cash and investments with fiscal agents and trustees	2,906	-	-	434
Cash and cash equivalents, end of year	\$ 49,508	\$ 107,044	\$ 35,983	\$ 30,918
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income	\$ 6,474	\$ 13,390	\$ 1,342	\$ 10,841
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	3,127	8,637	420	3,409
Other	-	-	-	-
Change in assets and liabilities:				
Accounts receivable	418	7,247	240	(451)
Inventory of materials and supplies	-	-	-	-
Deposit	8	-	-	-
Deferred outflow of resources - pension plans	(686)	(1,389)	17	(679)
Deferred outflow of resources - OPEB	31	183	(83)	45
Accounts payable and accruals	(2,070)	2,172	(144)	(287)
Accrued salaries and benefits	15	29	(5)	23
Accrued compensated absences	-	-	-	-
Landfill closure and post-closure care	-	-	-	-
Accrued claims payable	-	-	-	-
Net pension liability	980	2,579	129	894
Net OPEB liability	(79)	(314)	67	(101)
Deferred inflow of resources - pension plans	(266)	(725)	(62)	(274)
Deferred inflow of resources - OPEB	(112)	(377)	17	(153)
Net cash provided by operating activities	\$ 7,840	\$ 31,432	\$ 1,938	\$ 13,267

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	
\$ 20,091	\$ 19,259	\$ 27,385	\$ 7,231	\$ (40)	\$ 301,472	\$ 115,400
(11,507)	(9,786)	(24,905)	(1,153)	2,120	(208,761)	(14,110)
(5,103)	(13,195)	(2,963)	(2,422)	(972)	(68,610)	(86,418)
162	10,587	860	434	-	20,329	(5,765)
405	1,052	1,480	76	770	29,913	5
4,048	7,917	1,857	4,166	1,878	74,343	9,112
-	-	-	-	(1,354)	(1,354)	-
-	-	-	-	-	462	-
-	-	-	-	-	3,139	3,797
(342)	-	(30)	(154)	-	(22,226)	(2,704)
(342)	-	(30)	(154)	(1,354)	(19,979)	1,093
(3,976)	(5,682)	-	(3,053)	(6,050)	(38,992)	(4,828)
-	-	-	-	-	-	484
239	300	-	-	5,619	6,691	-
(104)	(2,131)	-	(775)	-	(5,550)	-
(24)	(719)	(197)	(172)	(74)	(10,576)	-
(3,865)	(8,232)	(197)	(4,000)	(505)	(48,427)	(4,344)
49	158	168	77	(19)	2,276	3,914
49	158	168	77	(19)	2,276	3,914
(110)	(157)	1,798	89	-	8,213	9,775
9,468	16,233	26,565	8,272	-	277,398	124,120
\$ 9,358	\$ 16,076	\$ 28,363	\$ 8,361	\$ -	\$ 285,611	\$ 133,895
\$ 9,358	\$ 16,076	\$ 28,363	\$ 8,361	\$ -	\$ 282,271	\$ 96,806
-	-	-	-	-	3,340	\$ 37,089
\$ 9,358	\$ 16,076	\$ 28,363	\$ 8,361	\$ -	\$ 285,611	\$ 133,895
\$ 813	\$ 3,633	\$ 1,969	\$ 3,212	\$ 1,186	\$ 42,860	\$ 1,864
2,849	4,143	81	871	69	23,606	3,153
-	-	-	-	-	-	5
174	376	11	(44)	(1,855)	6,116	(67)
-	-	-	-	-	-	(14)
-	17	-	-	-	25	-
(145)	(494)	(150)	(75)	77	(3,524)	(275)
17	53	19	8	3	276	37
236	(226)	686	11	2,632	3,010	141
6	34	1	(7)	(1)	95	47
-	-	-	-	-	-	1,403
-	-	(922)	-	-	(922)	-
-	-	-	-	-	-	2,818
373	1,098	375	370	(158)	6,640	681
(38)	(99)	(44)	(16)	(5)	(629)	(89)
(179)	(451)	(104)	(137)	(60)	(2,258)	(462)
(58)	(167)	(65)	(27)	(10)	(952)	(130)
\$ 4,048	\$ 7,917	\$ 1,857	\$ 4,166	\$ 1,878	\$ 74,343	\$ 9,112

See accompanying notes to the basic financial statements.



**CITY OF PALO ALTO**  
**Statement of Fiduciary Net Position**  
**June 30, 2021**  
**(Amounts in thousands)**

	Custodial Funds
ASSETS:	
Cash and investments available for operations (Note 3)	\$ 3,276
Accounts receivable	491
Interest receivable	16
Restricted cash and investments with fiscal agents (Note 3)	<u>2,705</u>
Total assets	<u>6,488</u>
LIABILITIES:	
Accounts payable and accruals	<u>411</u>
NET POSITION:	
Restricted for:	
Governmental entities	1,260
Bondholders of special assessment bonds	<u>4,817</u>
Total net position	<u><u>\$ 6,077</u></u>



**CITY OF PALO ALTO**  
**Statement of Changes in Fiduciary Net Position**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	<u>Custodial Funds</u>
ADDITIONS:	
Franchise and other fees collected	\$ 1,821
Special assessments collected	2,407
Investment earnings	9
Other	5
Total additions	<u>4,242</u>
DEDUCTIONS:	
Administrative and general	39
Distribution to governmental entities	1,538
Debt services payments	<u>2,409</u>
Total deductions	<u>3,986</u>
Changes in net position	256
NET POSITION, BEGINNING OF YEAR	<u>5,821</u>
NET POSITION, END OF YEAR	<u><u>\$ 6,077</u></u>

See accompanying notes to the basic financial statements.



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**CITY OF PALO ALTO**  
**Index to the Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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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, 2021**

**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, 4<sup>th</sup> Floor, 250 Hamilton Avenue, Palo Alto, CA 94301.

**(b) Basis of Presentation**

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

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

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

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

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

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

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

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

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

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

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

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

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

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

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

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

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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, 2021**

**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, 2021**

**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, 2021, changes to the compensated absences liabilities were as follows (in thousands):

Beginning balance	\$ 14,244
Additions	8,751
Payments	<u>(7,348)</u>
Ending balance	<u>\$ 15,647</u>
Current portion	<u>\$ 6,327</u>



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**(l) Pensions and OPEB**

For purposes of measuring the net pension liability and net OPEB liability, deferred outflows/inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the City’s pension and OPEB plans and additions to/deductions from the plans’ fiduciary net positions have been determined on the same basis as they are reported by the California Public Employees’ Retirement System (CalPERS) and the California Employer’s Retiree Benefit Trust Fund Program (CERBT), 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, 2021**

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

**(n) Effects of New Pronouncements**

As of July 1, 2020, the City implemented the following GASB Statement:

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The statement provides recognition and measurement guidance for situations in which a government is a beneficiary of these agreements. The City evaluated all funds and activities in accordance with the statement and determine that the Cable Joint Powers Authority and the District's activities previously reported as agency funds should be reported as custodial funds.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*. The objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2021.

In October 2021, the GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This statement establishes the term annual comprehensive financial report and its acronym ACFR and eliminates the prior name and acronym in generally accepted accounting principles for state and local governments. No changes were made to the report's structure or content. Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2021.

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

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 requirements of this statement are effective for the City's fiscal year ending June 30, 2022.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this statement are 1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and 2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for the City's fiscal year ending June 30, 2022.

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 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.

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.

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.

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.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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.

**(o) Use of Estimates**

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

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING**

1. The City Manager submits proposed operating and capital budgets to the City Council for the fiscal year commencing the following July 1. The 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.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

6. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP), except that unrealized gains or losses on investments, changes in advances to other funds and notes receivable are not recognized on a budgetary basis and encumbrances are treated as budgetary expenditures when incurred.
7. Expenditures for the Capital Projects Fund are budgeted and maintained at a project level for the life of the project. Budget to actual comparisons for these expenditures have been excluded from the accompanying financial statements.

**NOTE 3 – CASH AND INVESTMENTS**

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

**Policies**

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

**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	\$ 310,091	\$ 282,271	\$ 3,276	\$ 595,638
With fiscal agents and trustees	133,264	3,340	2,705	139,309
Total cash and investments	<u>\$ 443,355</u>	<u>\$ 285,611</u>	<u>\$ 5,981</u>	<u>\$ 734,947</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, 2021**

**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, General Obligation Bonds 2010 and 2013A, and University Avenue Parking Bond 2012 are allowed to invest in the California Asset Management Program.

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

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

**Fair Value Measurements**

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

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

The following is a summary of the fair value measurements of the City as of June 30, 2021 (in thousands):

Type of Investment	June 30, 2021	Level 2
Investments by fair value hierarchy		
U.S. Federal Agency Securities	\$ 243,526	\$ 243,526
U.S. Treasury Notes	13,680	13,680
Local Government Bonds	172,085	172,085
Negotiable Certificates of Deposit	36,271	36,271
Corporate Bonds	24,491	24,491
Supranational Bonds	31,792	31,792
Total investments by fair value hierarchy	521,845	<u>\$ 521,845</u>
Investment not subject to fair value hierarchy		
Money Market Mutual Funds	103,428	
Equity Mutual Funds (Irrevocable for Pension)	37,089	
California Asset Management Program	3,304	
Local Agency Investment Fund	67,394	
Total investments not subject to fair value hierarchy	<u>211,215</u>	
Total investments measured at fair value	<u>\$ 733,060</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, 2021**

**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 \$193.3 billion as of June 30, 2021. Of that amount, 97.7 percent was invested in nonderivative financial products and 2.3 percent in structured notes and asset backed securities. At June 30, 2021, LAIF had a weighted average maturity of 291 days.

**Money Market Mutual Funds**

Money market mutual funds are available for withdrawal on demand and at June 30, 2021, had a weighted average maturity of approximately 1 month.

**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, 2021, the fair value approximated the City's cost. CAMP had a weighted average maturity of 52 days at June 30, 2021.

**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, 2021, 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	\$ 23,669	\$ 50,617	\$ 75,136	\$ 94,104	\$ 243,526
U.S. Treasury Notes	1,517	9,215	2,948	-	13,680
Local Government Bonds	24,545	27,492	47,841	72,207	172,085
Corporate Bonds	860	7,547	16,084	-	24,491
Money Market Mutual Funds	103,428	-	-	-	103,428
Equity Mutual Funds					
(Irrevocable for Pension)	37,089	-	-	-	37,089
Negotiable Certificates of Deposit	10,287	12,527	9,801	3,656	36,271
California Asset Management Program	3,304	-	-	-	3,304
Supranational Bonds	-	4,257	27,535	-	31,792
Local Agency Investment Fund	67,394	-	-	-	67,394
Total Investments	<u>\$ 272,093</u>	<u>\$ 111,655</u>	<u>\$ 179,345</u>	<u>\$ 169,967</u>	<u>733,060</u>
Cash in bank and on hand					1,887
Total Cash and Investments					<u>\$ 734,947</u>



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

At June 30, 2021, the City's investments (including investments held by bond trustees) include U.S. Federal Agency Callable Securities totaling \$137.0 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, 2021, for each investment type (in thousands):

Type of Investment	Rating	Total
U.S. Federal Agency Securities	AA+	\$ 243,526
Corporate Bonds	AAA	19,076
	AA+	5,415
Total Corporate Bonds		24,491
Local Government Bonds	AAA	52,338
	AA+	50,433
	AA	41,241
	N/A	28,073
Total Government Bonds		172,085
Supranational Bonds	AAA	31,792
Money Market Mutual Funds	AAA	103,428
Subtotal rated investments		575,322
Not Applicable:		
U.S. Treasury Notes		13,680
Not Rated:		
California Asset Management Program		3,304
Local Agency Investment Fund		67,394
Negotiable Certificates of Deposit		36,271
Equity Mutual Funds (Irrevocable for Pension)		37,089
Cash in bank and on hand		1,887
Total Cash and Investments		\$ 734,947



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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, 2021 (in thousands):

Investments	Reporting Type	Fair Value at Year-End
Federal Agricultural Mortgage Corporation	U.S. Federal Agency Securities	\$ 88,423
Federal Home Loan Mortgage Corporation	U.S. Federal Agency Securities	45,987
Federal Home Loan Bank	U.S. Federal Agency Securities	43,991
Federal Farm Credit Bank	U.S. Federal Agency Securities	39,439

**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, 2021**

**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 2021 were as follows on the following page (in thousands):

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
General Fund	Nonmajor Governmental Funds	\$ 394 A
	Electric Services Fund	13,639 B
	Gas Services Fund	6,847 B
		<u>20,880</u>
Capital Projects Fund	General Fund	9,294 C
	Nonmajor Governmental Funds	9,170 C
	Water Services Fund	84 C
	Electric Services Fund	165 C
	Fiber Optics Fund	10 C
	Gas Services Fund	69 C
	Wastewater Collection Fund	41 C
	Refuse Fund	10 C
	Storm Drainage Fund	150 C
	Internal Service Funds	<u>205 C</u>
		<u>19,198</u>
Nonmajor Governmental Funds	General Fund	1,019 A
	Capital Projects Fund	2,380 A
	Water Services Fund	13 A
	Electric Services Fund	24 A
	Fiber Optics Fund	1 A
	Gas Services Fund	10 A
	Wastewater Collection Fund	6 A
	Internal Service Funds	<u>27 A</u>
		<u>3,480</u>
Water Services Fund	Gas Services Fund	279 C
	Wastewater Collection Fund	<u>278 C</u>
		<u>557</u>
Electric Services Fund	General Fund	2,082 D
	Water Services Fund	137 C
	Gas Services Fund	136 C
	Fiber Optics Fund	102 C
	Internal Service Funds	<u>125 C</u>
		<u>2,582</u>
Internal Service Funds	General Fund	1,225 E
	Water Services Fund	34 E
	Electric Services Fund	117 E
	Fiber Optics Fund	5 E
	Gas Services Fund	28 E
	Wastewater Collection Fund	17 E
	Refuse Fund	20 E
	Storm Drainage Services Fund	4 E
	Internal Service Funds	<u>2,347 F</u>
		<u>3,797</u>
	Total	<u>\$ 50,494</u>



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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, 2021, the non-major Street Improvement Special Revenue Fund, the non-major Federal Revenue Special Revenue Fund, and the non-major Airport Enterprise Fund owed the General Fund \$206,000, \$135,000, and \$602,000, 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, 2021, the outstanding advances was \$3.0 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, 2021**

**NOTE 5 – NOTES AND LOANS RECEIVABLE**

At June 30, 2021, the City's notes and loans receivable totaled (in thousands):

Palo Alto Housing Corporation:	
Tree House Apartments	\$ 5,344
Emerson Street Project	375
Alma Single Room Occupancy Development	2,222
Barker Hotel	2,111
Sheridan Apartments	2,222
Oak Court Apartments, L.P.	7,834
El Dorado Palace, LLC	150
Mid-Peninsula Housing Coalition:	
Palo Alto Gardens Apartments	100
Community Working Group, Inc.	1,280
Opportunity Center Associates, L.P.	945
Home Rehabilitation Loans	46
Executive Relocation Assistance Loans	826
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	901
MP Palo Alto Garden, LLC	672
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	49,537
Less: Valuation Allowance	(14,612)
	<hr/>
Total Notes and Loans Receivable, Net	\$ 53,677

**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, 2021**

**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, 2021**

**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, 2021, 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, 2021, 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, 2021 was \$945,000.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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, 2021, the outstanding balance was \$826,000.

**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, 2021**

**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, 2021, 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 \$901,000 and is due at the end of the 55-year term.

**MP Palo Alto Garden, LLC**

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

**Colorado Park Housing Corporation**

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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. During the year, \$18.8 million was drawn. As of June 30, 2021, the outstanding balance was \$18.8 million.

**NOTE 6 – CAPITAL ASSETS**

**Valuation**

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

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

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.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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, 2021**

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

**Governmental Activities**

Changes in the capital assets for governmental activities during the year ended June 30, 2021 were (in thousands):

	Balance July 1, 2020	Additions	Retirements	Transfers	Balance June 30, 2021
<i>Governmental activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 82,206	\$ -	\$ (75)	\$ -	\$ 82,131
Street trees	14,787	165	(127)	-	14,825
Intangible assets - Easement	3,567	-	-	-	3,567
Construction in progress	139,365	33,143	(11,934)	(22,761)	137,813
Total nondepreciable capital assets	239,925	33,308	(12,136)	(22,761)	238,336
Depreciable capital assets:					
Buildings and structures	251,119	-	(25)	21,003	272,097
Intangible assets - Software	279	-	-	-	279
Equipment	15,737	217	(520)	1,758	17,192
Roadway network	335,202	-	-	-	335,202
Recreation and open space network	35,186	-	-	-	35,186
Total depreciable capital assets	637,523	217	(545)	22,761	659,956
Less accumulated depreciation:					
Buildings and structures	(105,984)	(7,728)	1	-	(113,711)
Intangible assets - Software	(279)	-	-	-	(279)
Equipment	(8,856)	(460)	389	-	(8,927)
Roadway network	(171,522)	(7,694)	-	-	(179,216)
Recreation and open space network	(15,867)	(1,254)	-	-	(17,121)
Total accumulated depreciation	(302,508)	(17,136)	390	-	(319,254)
Depreciable capital assets, net	335,015	(16,919)	(155)	22,761	340,702
Internal service fund capital assets					
Construction in progress	2,723	2,864	-	-	5,587
Equipment	63,476	1,964	(2,415)	-	63,025
Less accumulated depreciation	(44,834)	(3,153)	2,316	-	(45,671)
Net internal service fund capital assets	21,365	1,675	(99)	-	22,941
Governmental activities capital assets, net	\$ 596,305	\$ 18,064	\$ (12,390)	\$ -	\$ 601,979



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Business-Type Activities Capital Assets**

Changes in the capital assets for the business-type activities during the year ended June 30, 2021 were (in thousands):

	Balance July 1, 2020	Additions	Retirements	Transfers	Balance June 30, 2021
<i>Business-type activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 4,973	\$ -	\$ -	\$ -	\$ 4,973
Construction in progress	121,096	38,420	-	(30,580)	128,936
Total nondepreciable capital assets	126,069	38,420	-	(30,580)	133,909
Depreciable capital assets:					
Buildings and structures	74,568	-	-	-	74,568
Infrastructure	633	-	-	-	633
Transmission, distribution and treatment systems	884,791	572	(1,154)	30,580	914,789
Total depreciable capital assets	959,992	572	(1,154)	30,580	989,990
Less accumulated depreciation:					
Buildings and structures	(16,141)	(1,393)	-	-	(17,534)
Infrastructure	(65)	(21)	-	-	(86)
Transmission, distribution and treatment systems	(376,604)	(22,192)	1,026	-	(397,770)
Total accumulated depreciation	(392,810)	(23,606)	1,026	-	(415,390)
Depreciable capital assets, net	567,182	(23,034)	(128)	30,580	574,600
Business-type activities capital assets, net	\$ 693,251	\$ 15,386	\$ (128)	\$ -	\$ 708,509

**Capital Asset Contributions**

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

**Depreciation Allocation**

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

<i>Governmental Activities</i>		<i>Business-type Activities</i>	
City Manager	\$ 22	Water	\$ 3,127
City Attorney	1	Electric	8,637
City Clerk	4	Fiber Optics	420
City Auditor	1	Gas	3,409
Administrative Services	4	Wastewater Collection	2,849
Public Works	10,530	Wastewater Treatment	4,143
Planning and Development Services	419	Refuse	81
Office of Transportation	9	Storm Drainage	871
Police	89	Airport	69
Fire	392		<u>\$ 23,606</u>
Community Services	3,297		
Library	2,368		
Internal Service Funds	3,153		
	<u>\$ 20,289</u>		



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Construction In Progress**

Construction in progress as of June 30, 2021 is comprised of the following (in thousands):

<b>Governmental Activities</b>	<b>Expended to June 30, 2021</b>
California Avenue Parking Garage	\$ 48,522
Highway 101 Pedestrian/Bicycle Overpass	19,617
New Public Safety Building	17,163
Charleston/Arastradero Corridor	13,136
Bicycle Boulevards Implementation Project	9,163
Traffic Signal Upgrades	4,875
Railroad Grade Separation	3,772
Technology Fund	3,748
JMZ Renovation	2,928
Animal Shelter Renovation	2,739
Rinconada Park Improvements	2,508
Vehicle Fund	1,839
Newell Road Bridge/SFC Bridge Replacement	1,829
Cubberley Track and Field Replacement	1,808
New Downtown Parking Garage	1,440
Quarry Road	1,282
Art in Public Places	1,027
Tennis & Basketball Court Resurfacing	908
Municipal Service Center Improvements	571
Emerg Vehicle Traffic Signal Preempt Sys	486
Park Wayfinding Design	475
Civic Center Electrical Upgrade	416
Other construction in progress	3,148
Total Governmental Activities	<u>\$ 143,400</u>
<b>Business-type Activities</b>	<b>Expended to June 30, 2021</b>
Airport's Apron Reconstruction	\$ 30,464
Electric distribution system improvements	22,752
Gas system extension replacements and improvements	17,800
Storm drainage structural and water quality improvements	11,779
Water quality control plant equipment replacement and lab facilities	7,528
Sewer system rehabilitation and extensions	4,241
Water system extension replacements and improvements	2,958
Other electrical improvements projects	2,148
Other construction in progress	29,266
Total Business-type Activities	<u>\$ 128,936</u>



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**NOTE 6 – 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:

- New Public Safety Building - \$97.1 million
- Charleston Arastradero Corridor – \$7.4 million
- Municipal Service Center Improvements - \$6.0 million
- Churchill Ave/Alma - \$4.2 million
- Railroad Grade Separation - \$4.0 million
- Highway 101 Pedestrian/Bicycle Overpass - \$3.7 million
- Vehicle Replacements - \$3.3 million

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

- Seismic Water Systems Upgrades - \$5.3 million
- Gas Main Replacement Project 23 - \$6.9 million
- Primary Sedimentation Tank Rehabilitation - \$11.8 million
- Airport Apron Reconstruction Phase 1 - \$23.3 million

**Vehicle Registration Fees (VRF)**

In fiscal year 2021, 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, 2020	\$ -
VRF revenue	444
VRF interest earned	2
VRF expense	(446)
Ending VRF balance June 30, 2021	<u>\$ -</u>



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**NOTE 7 – LONG-TERM DEBT**

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

	Original Issue Amount	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021	Current Portion
<b>Governmental Activities Debt:</b>						
2010 General Obligation Bonds, 3.25% - 5%, due 08/01/2040	\$ 55,305	\$ 43,295	\$ -	\$ 1,330	\$ 41,965	\$ 1,395
2013A General Obligation Bonds, 2 - 5%, due 08/01/2041	20,695	15,480	-	450	15,030	465
2018 Capital Improvement Project and Refinancing Certificates of Participation, 2.2%- 4.22%, due 11/1/2047	8,970	8,755	-	185	8,570	190
2019 California Ave Parking Garage Certificates of Participation, Series A & B 2.5%-5%, due 11/1/2048	37,370	36,995	-	630	36,365	645
2021 Public Safety Building Certificates of Participation, 2%-5%, due 11/1/2050	101,505	-	101,505	-	101,505	-
Add: Unamortized Premium	-	7,980	6,524	405	14,099	569
<b>Total Governmental Activities Debt</b>	<b>\$ 223,845</b>	<b>\$ 112,505</b>	<b>\$ 108,029</b>	<b>\$ 3,000</b>	<b>\$ 217,534</b>	<b>\$ 3,264</b>
<b>Business-type Activities Debt:</b>						
<b>Utility Revenue Bonds</b>						
1999 Refunding, 5.125-5.25%, due 06/01/2024	\$ 17,735	\$ 6,660	\$ -	\$ 1,540	\$ 5,120	\$ 1,620
2009 Series A, 1.80-5.95%, due 06/01/2035	35,015	25,510	-	1,180	24,330	1,235
2011 Refunding, 3-4%, due 06/01/2035	17,225	7,890	-	1,210	6,680	1,260
Add: Unamortized Premium	-	479	-	81	398	-
<b>Energy Tax Credit Bonds</b>						
2007 Series A, 0%, Due 12/15/2021	1,500	200	-	100	100	100
Less: Unamortized Discount	-	(11)	-	(5)	(6)	-
<b>Total Bonds</b>	<b>71,475</b>	<b>40,728</b>	<b>-</b>	<b>4,106</b>	<b>36,622</b>	<b>4,215</b>
<b>State Water Resources Loans</b>						
<b>Direct Borrowings:</b>						
2007, 1.02%, due 06/30/2029	9,000	4,050	-	450	3,600	450
2009, 2.6%, due 11/30/2030	8,500	5,258	-	419	4,839	430
2017, 1.8%, due 5/31/2049	29,684	24,500	-	651	23,849	662
<b>Total Direct Borrowings</b>	<b>47,184</b>	<b>33,808</b>	<b>-</b>	<b>1,520</b>	<b>32,288</b>	<b>1,542</b>
<b>Total Business-type Activities Debt</b>	<b>\$ 118,659</b>	<b>\$ 74,536</b>	<b>\$ -</b>	<b>\$ 5,626</b>	<b>\$ 68,910</b>	<b>\$ 5,757</b>

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, 2021**

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

**Description of Long-Term Debt Issues**

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

On June 28, 2016, the City defeased \$2.3 million of 2010 GO Bonds using funds from bond premiums received at time of issue by depositing the amount in an irrevocable trust account. The trust account assets and the liability for the defeased bonds are not included in the City's financial statements. The City defeased amount was paid off on August 1, 2020.

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

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

The City's 2010 and 2013A GO Bonds are general obligations of the City, secured and payable solely from ad valorem property taxes levied by the City and collected by the County of Santa Clara. The City is empowered and obligated to annually levy ad valorem taxes for the payment of the Bonds and the interest thereon upon all property within the City subject to taxation by the City, without limitation of rate or amount (except certain personal property which is taxable at limited rates) until the final maturity dates of the bonds on August 1, 2040 and August 1, 2041 respectively. For the fiscal year ended June 30, 2021, the City received \$4.3 million in ad valorem property taxes for principal of \$1.8 million and interest of \$2.6 million for the 2010 and 2013A GO Bonds.

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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).



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$5.1 million principal and \$0.5 million interest as the remaining debt service on the bonds, which is scheduled to occur in fiscal year 2024. For fiscal year 2021, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$59.1 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$43.3 million. Net Revenues available for debt service amounted to \$15.8 million, which represents coverage of 8.4 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 City received subsidy payments amounting to \$462,000, which represents 30.8 percent of the interest payments due on December 1 and June 1.

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$24.3 million principal and \$11.6 million interest as the remaining debt service on the bonds, which is scheduled to occur in fiscal year 2035. For fiscal year 2021, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$49.2 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$39.2 million. Net Revenues available for debt service amounted to \$10.0 million, which represented coverage of 3.9 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 \$6.7 million principal and \$0.6 million interest as remaining debt service on the bonds, which is scheduled to occur in fiscal year 2026. For fiscal year 2021, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$88.9 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$64.5 million. Net Revenues available for debt service amounted to \$24.4 million, which represented coverage of 16.7 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, 2021**

**NOTE 7 –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 ends upon repayment of the \$0.1 million remaining debt service on the bonds, which is scheduled to occur in fiscal year 2022. For fiscal year 2021, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$163.2 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$140.2 million. Net Revenues available for debt service amounted to \$23.0 million, which represented coverage of 229.7 times over the \$0.1 million in debt service.

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

Concurrently with the loan, the City entered into various other agreements including a cost sharing arrangement with the City of Mountain View. Pursuant to that agreement, City of Mountain View agreed to finance a portion of the project with a \$6.0 million loan repayable to the City. This loan has been recorded as “Due from other government agencies” in the accompanying financial statements. The balance due to the City at June 30, 2021 was \$2.4 million.

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

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
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**NOTE 7 – LONG-TERM DEBT (Continued)**

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.

**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
2022	\$ 2,695	\$ 7,762	\$ 10,457	\$ 4,215	\$ 1,797	\$ 6,012	\$ 1,542	\$ 317	\$ 1,859
2023	2,795	7,462	10,257	4,300	1,616	5,916	1,566	300	1,866
2024	5,045	7,286	12,331	4,485	1,427	5,912	1,589	283	1,872
2025	5,280	7,062	12,342	2,790	1,229	4,019	1,613	266	1,879
2026	5,545	6,802	12,347	2,900	1,121	4,021	1,638	248	1,886
2027-2031	32,115	29,450	61,565	8,645	4,178	12,823	7,679	962	8,641
2032-2036	39,895	21,590	61,485	8,895	1,361	10,256	4,105	602	4,707
2037-2041	45,720	13,356	59,076	-	-	-	4,488	432	4,920
2042-2046	33,080	6,842	39,922	-	-	-	4,907	246	5,153
2047-2051	31,265	1,836	33,101	-	-	-	3,161	51	3,212
Total	<u>\$ 203,435</u>	<u>\$ 109,448</u>	<u>\$ 312,883</u>	<u>\$ 36,230</u>	<u>\$ 12,729</u>	<u>\$ 48,959</u>	<u>\$ 32,288</u>	<u>\$ 3,707</u>	<u>\$ 35,995</u>

**Debt Call Provisions**

Long-term debt as of June 30, 2021 is callable on the following terms and conditions:

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

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Leasing Arrangements**

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

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

**Events of Default and Acceleration Clauses**

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

**NOTE 8 – SPECIAL ASSESSMENT DEBT**

**Special Assessment Debt with no City Commitment**

On February 29, 2012, the 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 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, 2021, the District's outstanding debt amounted to \$17.9 million. The proceeds from the 2012 Bonds, combined with available Assessment Funds, were used to redeem the outstanding University Avenue Area Off-Street Parking Assessment District Series 2001-A and Series 2002-A Bonds. On June 28, 2016, the District defeased \$1.6 million of the 2012 Bonds using funds remaining from completion of the project. The defeased debt will be paid on September 2, 2022. Reserve and redemption funds held by the District are reported within the University Avenue Area Off-Street Parking Assessment District Custodial Fund.

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

The 126-acre Palo Alto Refuse Disposal Site (Palo Alto Landfill) was filled to capacity and stopped accepting waste in July 2011. State and federal laws and regulations require the City to construct a final cover to cap the waste, and to perform certain post-closure maintenance and monitoring activities at the site for a minimum of thirty years after closure. As of November 2015, the Palo Alto Landfill has been fully capped and subsequently converted to a pastoral park (Byxbee Park) that is open to the public. A final post-closure maintenance plan and cost estimate for the thirty-year post-closure maintenance related activities



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**NOTE 9 – LANDFILL POST-CLOSURE MAINTENANCE (Continued)**

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, 2021 are \$6.2 million, a decrease of \$0.9 million from the previous year. The City is required by State and federal laws and regulations to fund post-closure maintenance activities by pledging future revenue received from Refuse customers through rate fees.

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

**Net Position**

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

*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, 2021**

**NOTE 10 – 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. 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, 2021, total outstanding encumbrances and reappropriations related to governmental funds were \$10.9 million for the General Fund, \$148.0 million for the Capital Projects Fund, and \$3.2 million for the Special Revenue Funds.

**Enterprise Funds**

At June 30, 2021, 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	\$ -	\$ -	\$ -	\$ 2,766	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,766
Distribution	9,070	-	33,343	-	342	(4,988)	20,014	4,745	(14,006)	48,520
	<u>9,070</u>	<u>-</u>	<u>33,343</u>	<u>2,766</u>	<u>342</u>	<u>(4,988)</u>	<u>20,014</u>	<u>4,745</u>	<u>(14,006)</u>	<u>51,286</u>
Operations										
Supply	-	19,875	-	-	-	-	-	-	-	19,875
Distribution	20,773	10,026	-	11,982	6,578	-	-	-	-	49,359
	<u>20,773</u>	<u>29,901</u>	<u>-</u>	<u>11,982</u>	<u>6,578</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,234</u>
Emergency plant replacement	-	-	1,000	-	-	1,980	-	-	-	2,980
Electric special projects	-	46,665	-	-	-	-	-	-	-	46,665
Reappropriations	4,451	10,050	202	443	716	-	-	3,553	-	19,415
Commitments	6,181	7,142	2,186	8,709	541	18,760	1,484	831	11,469	57,303
Underground loan	-	727	-	-	-	-	-	-	-	727
Notes and loans	-	-	-	-	-	1,651	-	-	-	1,651
Landfill corrective action	-	-	-	-	-	-	681	-	-	681
Hydro stabilization reserve	-	15,400	-	-	-	-	-	-	-	15,400
Public benefit program	-	3,028	-	-	-	-	-	-	-	3,028
Reserve for LCFS	-	6,944	-	-	-	-	-	-	-	6,944
CIP reserve	10,707	880	-	3,820	3,178	-	-	-	-	18,585
Geng Road reserve	-	-	-	-	-	-	268	-	-	268
Cap & Trade	-	1,189	-	4,542	-	-	-	-	-	5,731
GASB 68 Pension	(14,143)	(34,212)	(2,238)	(14,792)	(8,368)	(21,278)	(5,896)	(3,987)	(754)	(105,668)
GASB 75 OPEB	(4,054)	(13,233)	(1)	(5,849)	(2,236)	(6,945)	(2,485)	(1,094)	(408)	(36,305)
Total	<u>\$ 32,985</u>	<u>\$ 74,481</u>	<u>\$ 34,492</u>	<u>\$ 11,621</u>	<u>\$ 751</u>	<u>\$ (10,820)</u>	<u>\$ 14,066</u>	<u>\$ 4,048</u>	<u>\$ (3,699)</u>	<u>\$ 157,925</u>



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

**Internal Service Funds**

At June 30, 2021, 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	\$ 4,608	\$ 3,236	\$ 40	\$ 325	\$ 178	\$ 11	\$ -	\$ 8,398
Future catastrophic losses	-	-	-	-	-	3,670	-	3,670
Retiree health care	-	-	-	-	-	-	2,694	2,694
GASB 68 pension	(3,235)	(11,509)	(263)	-	37	-	-	(14,970)
GASB 75 OPEB	(1,549)	(3,162)	(142)	-	-	-	-	(4,853)
Available	7,065	18,557	85	5,572	1,326	-	-	32,605
Total	<u>\$ 6,889</u>	<u>\$ 7,122</u>	<u>\$ (280)</u>	<u>\$ 5,897</u>	<u>\$ 1,541</u>	<u>\$ 3,681</u>	<u>\$ 2,694</u>	<u>\$ 27,544</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.

**Deficit Fund Balance and Net Position:**

At June 30, 2021, the City's Printing and Mailing Services internal service fund had a deficit net position of \$254,000. The deficit is due to the impact of Pension and OPEB liabilities and related balances. The deficit is expected to be funded by future internal service charges to other City funds.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
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**NOTE 11 – PENSION PLANS**

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

**Plan Descriptions** - Substantially all permanent City employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by 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](http://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, 2021, are summarized in the following table. Contribution rates are based on the Actuarial Valuation Report as of June 30, 2018.

	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 <sup>1</sup>	3% at 55	3% at 55	3% at 50	2.7% at 57
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50	55 <sup>1</sup>	55 <sup>1</sup>	57 <sup>1</sup>
Monthly benefit as % of eligible compensation	3%	3%	3%	2.7%
Actuarially determined contribution rate - EE	9%	9%	9%	11.25%
Actuarially determined contribution rate - ER	65.332%	65.332%	65.332%	65.332%

	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 <sup>2</sup>	2% at 60 <sup>2</sup>	2% at 62 <sup>3</sup>
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	55 <sup>2</sup>	60 <sup>2</sup>	62 <sup>3</sup>
Monthly benefit as % of eligible compensation <sup>2</sup>	2.70%	2.0% - 2.418%	2%
Actuarially determined contribution rate - EE	8%	7%	6.25%
Actuarially determined contribution rate - ER	38.367%	38.367%	38.367%

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

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

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Employees Covered** – Based on the Actuarial Valuation Report as of June 30, 2020, 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	1,223	435
Inactive employees entitled to but not yet receiving benefits	835	104
Active employees	777	174
Total	2,835	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 Council approved an initial deposit of \$2.1 million in General Fund proceeds into the General Fund subaccount of the City’s PARS Trust Account. The Trust Account allows more control and flexibility in investment allocations compared to City’s portfolio which is restricted by State regulations to fixed income instruments. The City proactively contributes to the Section 115 irrevocable trust amounts reflective of what retirement costs would be if the normal cost of contributions was budgeted at a 6.2% discount rate. During the year, the City contributed \$5.0 million to the PARS Trust. As of June 30, 2021, the City reported the account balance of \$37.1 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, 2020 (measurement date), using the Actuarial Valuation Report as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

	<u>Miscellaneous and Safety Plans</u>
Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality <sup>1</sup>	Derived using CalPERS membership data for all funds.
Post Retirement Benefit Increase	The lessor of contract COLA or 2.50% until Purchasing Power Protection Allowance Floor on purchasing power applies, 2.50% thereafter.

<sup>1</sup> The mortality table used was developed based on CalPERS' specific data. The 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, 2019 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, 2021**

**NOTE 11 – 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, 2019, are as follows:

Asset Class	Current Target Allocation	Real Return Years 1 - 10 <sup>1</sup>	Real Return Years 11+ <sup>2</sup>
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.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

	Total Pension Liability	Plan Net Position	Net Pension Liability
<b><u>Miscellaneous Plan:</u></b>			
Balances calculated at July 1, 2020	\$ 849,004	\$ 573,840	\$ 275,164
Changes for the year:			
Service cost	14,267	-	14,267
Interest on total pension liability	59,995	-	59,995
Differences between expected and actual experiences	4,850	-	4,850
Contributions from employer	-	28,889	(28,889)
Contributions from employees	-	7,189	(7,189)
Net investment income	-	28,735	(28,735)
Benefit payments, including refunds of employee contributions	(43,781)	(43,781)	-
Administrative expense	-	(809)	809
Net changes	<u>35,331</u>	<u>20,223</u>	<u>15,108</u>
Balances reported at June 30, 2021	<u>884,335</u>	<u>594,063</u>	<u>290,272</u>
<b><u>Safety Plan:</u></b>			
Balances calculated at July 1, 2020	\$ 456,817	\$ 289,028	\$ 167,789
Changes for the year:			
Service cost	7,898	-	7,898
Interest on total pension liability	32,469	-	32,469
Differences between expected and actual experiences	6,314	-	6,314
Contributions from employer	-	14,297	(14,297)
Contributions from employees	-	3,459	(3,459)
Net investment income	-	14,310	(14,310)
Benefit payments, including refunds of employee contributions	(25,948)	(25,948)	-
Administrative expense	-	(407)	407
Net changes	<u>20,733</u>	<u>5,711</u>	<u>15,022</u>
Balances reported at June 30, 2021	<u>477,550</u>	<u>294,739</u>	<u>182,811</u>
Total	<u>\$ 1,361,885</u>	<u>\$ 888,802</u>	<u>\$ 473,083</u>



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
<b>Miscellaneous Plan:</b>			
Plan's Net Pension Liability	\$ 401,532	\$ 290,272	\$ 197,747
<b>Safety Plan:</b>			
Plan's Net Pension Liability	\$ 244,169	\$ 182,811	\$ 132,093

**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, 2021, the City recognized a pension expense of \$34.7 million and \$25.7 million for the Miscellaneous and Safety Plan, respectively, for a total of \$60.4 million. At June 30, 2021, the City reported pension related deferred outflows of resources for the Miscellaneous and Safety Plans from the following sources (in thousands):

	Deferred Outflows of Resources
<b><u>Miscellaneous Plan:</u></b>	
Pension contributions subsequent to measurement date	\$ 32,782
Difference between expected and actual experience	5,051
Net difference between projected and actual earnings on plan investments	3,887
Balance reported at June 30, 2021	41,720
<b><u>Safety Plan:</u></b>	
Pension contributions subsequent to measurement date	14,796
Difference between expected and actual experience	5,157
Net difference between projected and actual earnings on plan investments	1,977
Balance reported at June 30, 2021	21,930
Total, Miscellaneous and Safety Plans	\$ 63,650



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

The \$47.6 million reported as deferred outflows of resources relates to contributions paid by the City from July 1, 2020 through June 30, 2021 which is subsequent to the City's measurement date of June 30, 2020 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, 2022.

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

Year Ended June 30,	Miscellaneous Plan	Safety Plan	Total
2022	\$ 975	\$ 1,931	\$ 2,906
2023	2,732	2,505	5,237
2024	2,849	1,494	4,343
2025	2,382	1,204	3,586
	<u>\$ 8,938</u>	<u>\$ 7,134</u>	<u>\$ 16,072</u>



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

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

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

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

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

<sup>4</sup> For the year ended June 20, 2021, 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 <sup>1</sup>	Dependent Coverage <sup>2</sup>
Management & Professional	1/1/2004	50%-100%	Max. 90%
Police Management	1/1/2004	50%-100%	Max. 90%
Fire Fighters	1/1/2004	50%-100%	Max. 90%
Fire Chiefs Association	1/1/2004	50%-100%	Max. 90%
Utilities Managers & Professional	1/1/2004	50%-100%	Max. 90%
SEIU	1/1/2005	50%-100%	Max. 90%
Police Officers	1/1/2006	50%-100%	Max. 90%

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

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**NOTE 12 – 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, 2020, the most recent information available, are as follows:

Inactive employees or beneficiaries currently receiving benefits	1,011
Inactive employees entitled to but not yet receiving benefits	75
Active employees	897
Total	<u>1,983</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, 2021, the City's contributions totaled \$14.6 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, 2020, using an annual actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures. A summary of principal assumptions and methods used to determine the net OPEB liability is shown below.

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age, level percentage of payroll
Actuarial Assumptions:	
Discount Rate	6.75%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	2017 CalPERS Experience Study for the period from 1997 to 2015
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
Disability, Termination, Retirement Mortality	CalPERS 1997-2015 Experience Study 2017 CalPERS Experience Study for the period from 1997 to 2015
Mortality Improvement	Post-retirement mortality projected fully generational with Society of Actuaries Scale MP-2019
Increase to Group 3 Flat Dollar Caps	1/2 of Medical Trend, not less than assumed inflation (2.75%)
Healthcare Participation for Future ACA Excise Tax	Future retirees: 95-98%, based on Plan experience None



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Change of Assumptions** – During measurement period 2020, actuarial assumptions for ACA Exercise Tax was changed from 2% load on cash subsidy to none.

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

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

Asset Class	Current Target Allocation	Expected Real Rate of Return
Global Equity	59.0%	4.82%
Fixed Income	25.0	1.47
TIPS	5.0	1.29
Commodities	3.0	0.84
REITS	8.0	3.76
Assumed long-term rate of inflation of 2.75%		

**(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, 2020	\$ 245,509	\$ 118,479	\$ 127,030
Changes during the measurement period:			
Service cost	6,366	-	6,366
Interest on the total OPEB liability	16,572	-	16,572
Changes in assumptions	(4,426)	-	(4,426)
Contributions - employer	-	16,475	(16,475)
Investment income	-	4,327	(4,327)
Administrative expenses	-	(58)	58
Benefit payments	(12,728)	(12,728)	-
Net changes	5,784	8,016	(2,232)
Balance at June 30, 2021	\$ 251,293	\$ 126,495	\$ 124,798



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

Discount Rate -1% (5.75%)	Current Discount Rate (6.75%)	Discount Rate +1% (7.75%)
\$ 157,131	\$ 124,798	\$ 98,126

***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%
\$ 94,719	\$ 124,798	\$ 161,763

***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, 2021, the City recognized an OPEB expense of \$10.0 million for the OPEB plan. At June 30, 2021, 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	\$ 14,592	\$ -
Differences between expected and actual experience	-	19,031
Changes in assumptions	4,491	3,621
Net differences between projected and actual earnings on plan investments	2,200	-
Total	<u>\$ 21,283</u>	<u>\$ 22,652</u>



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

The \$14.6 million reported as deferred outflows of resources relates to contributions made by the City from July 1, 2020 through June 30, 2021, which is subsequent to the City's measurement date of June 30, 2020. This amount will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2022.

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>	
2022	\$ (4,964)
2023	(4,336)
2024	(4,125)
2025	(2,135)
2026	(401)
Total	<u>\$ (15,961)</u>

**NOTE 13 – DEFERRED COMPENSATION PLAN**

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

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

**NOTE 14 – RISK MANAGEMENT**

**Coverage**

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

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

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

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

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

During the year ended June 30, 2021, the City paid \$2.1 million to ACCEL for current year coverage.

Audited financial statements are available from ACCEL at 100 Pine Street, 11<sup>th</sup> Floor, San Francisco, California 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	
	2021	2020
Beginning balance	\$ 29,713	\$ 28,365
Claims expense, including claims incurred but not reported (IBNR)	11,197	6,914
Claims paid	(8,379)	(5,566)
Ending balance	<u>\$ 32,531</u>	<u>\$ 29,713</u>
Current portion	<u>\$ 6,811</u>	<u>\$ 6,198</u>



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

The City also recorded claims payable of \$12.6 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 16.

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

**NOTE 15 – JOINT VENTURES**

**General**

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

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

**Northern California Power Agency**

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

During the year ended June 30, 2021, the City incurred expenses totaling \$92.1 million for purchased power and assessments earned by NCPA.

The City's interest in NCPA projects and reserves, as computed by NCPA, was \$8.1 million at June 30, 2021. 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, 2021**

**NOTE 15 – 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, 2021, the book value of this Project's plant, equipment and other assets was \$303.8 million, while its long-term debt totaled \$255.8 million and other liabilities totaled \$44.5 million. The City's share of the Project's long-term debt amounted to \$58.6 million at that date.

**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, 2021**

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

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

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

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

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

**NOTE 16 – COMMITMENTS AND CONTINGENCIES**

**Palo Alto Unified School District** – The City leased 27 acres of the former Cubberley School site and twelve extended day care sites from Palo Alto Unified School District (PAUSD) through December 31, 2019. The City and the PAUSD reached new agreements for the Cubberley School site through December 31, 2024, and the twelve extended day care sites through June 30, 2022. Under the new 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 the Junior Museum and Zoo (JMZ) Building and/or the Building S. The City intends to surrender the JMZ Building after the completion of the new museum building that is not located on the property.

The total lease expenditures for the year ended June 30, 2021 amounted to \$4.1 million. Future minimum annual lease payments are as follows (in thousands):

Year Ending	
June 30	Payment
2022	\$ 3,406
2023	2,568
2024	2,568
2025	1,284
	<u>\$ 9,826</u>



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**GreenWaste of Palo Alto** – GreenWaste of Palo Alto is the City’s contractor for waste collection, transportation, and processing services. The agreement expires June 30, 2026. The base compensation for GreenWaste is adjusted annually based on CPI indicators stipulated in the contract. In fiscal year 2021 payments to GreenWaste were \$11.0 million.

**City of Palo Alto Regional Water Quality Control Plant** – The cities of Palo Alto, Mountain View and Los Altos (the Partners) participate jointly in the cost of maintaining and operating the City of Palo Alto Regional Water Quality Control Plant and related system (the Plant). The City is the owner and administrator of the Plant, which provides the transmission, treatment and disposal of sewage for the Partners. The cities of Mountain View and Los Altos are entitled to use a portion of the capacity of the Plant for a specified period of time. Each partner has the right to rent unused capacity from/to the other partners. The expenses of operations and maintenance are paid quarterly by each partner based on its pro rata share of treatment costs. Additionally, joint system revenues are shared by the partners in the same ratio as expenses are paid. The amended agreement 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.

**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.

In fiscal year 2008, the members agreed to finance an Equipment Replacement Project from existing reserves and proceeds from the Solid Waste Revenue Bond, Series 2007. The City has committed to repay 27.8 percent of the remaining debt service on the Bonds. During the year ended June 30, 2021, the City made the last debt service payment of \$0.2 million and the City’s obligation to pay related debt service payments is completed. The MOU is expiring on December 31, 2021.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**UTILITIES ENERGY RESOURCE MANAGEMENT**

***Electric Power Supply Purchase Agreements*** – The City has numerous power purchase agreements with power producers to purchase capacity and energy to supply a portion of its load requirements. As of June 30, 2021, the approximate minimum obligations for the contracts, assuming the energy is delivered over the next four years, are as follows:

Fiscal Year	Projected Obligation
2022	\$63.66 million
2023	\$57.61 million
2024	\$55.60 million
2025	\$52.02 million
2026	\$52.63 million

***Contractual Commitments beyond 2022 (Electricity)*** – Several of the City’s purchase power and transmission contracts extend beyond the five-year summary presented above. These contracts expire between 2026 and 2051 and provide for power under various terms and conditions. The City also has a new solar power purchase agreement that is schedule to start in January 2023. The City estimates that its annual minimum commitments under all of its contracts, assuming the energy is delivered, ranges between \$62.06 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, although at a slightly lower share of the total energy output and revenue requirement (12.06 percent instead of 12.31 percent).

***Gas Transmission and Local Transportation Rates*** – The City relies on Pacific Gas and Electric Company’s (PG&E) natural gas pipeline infrastructure, including both high-pressured transmission and medium-pressure local transportation, to move gas from the California border to the City’s distribution system. Rates are determined through proceedings at the California Public Utilities Commission. The gas transmission and local transportation rates increased by 26% and 8%, respectively, from fiscal year 2020 to fiscal year 2021. The gas transmission and local transportation rates are expected to increase by 4% and 3%, respectively, in fiscal year 2022.

***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 remain flat through 2022.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Litigation**

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

A class action lawsuit 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 late 2022/early 2023) on the parties' respective appeals. While the ultimate outcome of the claim is uncertain, the City has recorded a claims payable equal to the trial court judgment. This liability is not due and payable at June 30, 2021 and the City recorded a non-current claims payable of \$12.6 million on its governmental activities' financial statements for this lawsuit. In 2022, the City has 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 Attorney is of the opinion that a loss is reasonably possible but cannot be reasonably estimated at this time.

**Grant Programs**

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

**Uncertainties**

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak and any related adverse public health developments have adversely affected workforces, customers, economies, and financial markets globally. It has also disrupted the normal operations of many governments, including the City. The City expects this outbreak to impact the City's operations for future reporting periods. It is not possible for the City to predict the duration or magnitude of the adverse results of the outbreak and its effects on the City's operations.

**Note 17 – SUBSEQUENT EVENT**

On July 12, 2021, the SWRCB and the City executed a direct loan agreement for an award up to \$17.5 million to finance the rehabilitate and upgrade the RWQCP primary sedimentation tanks and ancillary systems. The loan interest rate is 0.9% and has a final maturity on February 15, 2053.



**CITY OF PALO ALTO**  
**Required Supplementary Information (Unaudited)**  
**Last 7 Fiscal Years\***

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

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

**Notes to Schedule:**

**Benefit changes** - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2019 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 and 2020.

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



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

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

<b>Fiscal Year</b>	<b>2020-21</b>	<b>2019-20</b>	<b>2018-19</b>	<b>2017-18</b>	<b>2016-17</b>	<b>2015-16</b>	<b>2014-15</b>	<b>2013-14</b>
Contractually required contribution (actuarially determined)	\$ 32,782	\$ 28,889	\$ 25,423	\$ 23,342	\$ 20,638	\$ 18,840	\$ 18,610	\$ 17,400
Actual contribution	(32,782)	(28,889)	(25,423)	(23,342)	(20,638)	(18,840)	(18,610)	(17,400)
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 87,177	\$ 81,017	\$ 82,573	\$ 80,634	\$ 77,606	\$ 73,722	\$ 69,837	\$ 66,373
Contributions as percentage of covered payroll	37.60%	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 2021 contribution rates are as follows:

ADC for fiscal year	June 30, 2021
Actuarial valuation date	June 30, 2018
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 eight years of information is shown.



**CITY OF PALO ALTO**  
**Required Supplementary Information (Unaudited)**  
**Last 7 Fiscal Years\***

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

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

**Notes to Schedule:**

**Benefit changes** - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2019 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 and 2020.

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



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

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

<b>Fiscal Year</b>	<b>2020-21</b>	<b>2019-20</b>	<b>2018-19</b>	<b>2017-18</b>	<b>2016-17</b>	<b>2015-16</b>	<b>2014-15</b>	<b>2013-14</b>
Contractually required contribution (actuarially determined)	\$ 14,796	\$ 14,297	\$ 12,370	\$ 11,030	\$ 10,220	\$ 9,403	\$ 8,617	\$ 7,616
Actual contribution	(14,796)	(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>
Covered payroll	\$ 25,615	\$ 26,189	\$ 24,263	\$ 24,131	\$ 21,906	\$ 21,822	\$ 21,912	\$ 21,896
Contributions as percentage of covered payroll	57.76%	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 2021 contribution rates are as follows:

ADC for fiscal year	June 30, 2021
Actuarial valuation date	June 30, 2018
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 eight years of information is shown.



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

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

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

**Notes to Schedule:**

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

**Changes in assumptions** - 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.

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



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

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

<b>Fiscal Year</b>	<b>2020-21</b>	<b>2019-20</b>	<b>2018-19</b>	<b>2017-18</b>	<b>2016-17</b>
Contractually required contribution (actuarially determined)	\$ 14,566	\$ 16,482	\$ 15,997	\$ 16,938	\$ 16,365
Actual contribution	(14,592)	(16,475)	(15,997)	(21,349)	(14,739)
Contribution deficiency/(excess)	<u>\$ (26)</u>	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ (4,411)</u>	<u>\$ 1,626</u>
 Covered employee payroll	 \$ 120,869	 \$ 125,676	 \$ 118,014	 \$ 119,090	 \$ 118,774
 Contributions as percentage of covered employee payroll	 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 2021 contribution rates are as follows:

ADC for fiscal year	June 30, 2021
Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry-Age, level percentage of payroll
Amortization method	Level percent of pay
Amortization period	24-year fixed period for 2020/21
Asset valuation method	Market value, no smoothing
Inflation	2.75%
Payroll growth	3.00%
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 five years of information is shown.



**CITY OF PALO ALTO**  
**Non-major Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2021**  
**(Amounts in thousands)**

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total Other Governmental Funds
<b>ASSETS:</b>				
Cash and investments available for operations	\$ 60,487	\$ 3,728	\$ 2,543	\$ 66,758
Receivables, net:				
Accounts and intergovernmental	517	2	-	519
Interest	357	19	13	389
Notes and loan receivable	52,851	-	-	52,851
Restricted cash and investments with fiscal agents	-	4,655	-	4,655
Total assets	<u>\$ 114,212</u>	<u>\$ 8,404</u>	<u>\$ 2,556</u>	<u>\$ 125,172</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
Liabilities:				
Accounts payable and accruals	\$ 495	\$ -	\$ -	\$ 495
Accrued salaries and benefits	34	-	-	34
Due to other funds	341	-	-	341
Total liabilities	<u>870</u>	<u>-</u>	<u>-</u>	<u>870</u>
Fund balances:				
Nonspendable				
Eyerly family	-	-	2,556	2,556
Restricted for:				
Transportation mitigation	12,512	-	-	12,512
Federal revenue	5,293	-	-	5,293
Street improvement	28	-	-	28
Local law enforcement	756	-	-	756
Public benefit	18,282	-	-	18,282
Debt service	-	8,404	-	8,404
Committed for:				
Developer impact fee	13,300	-	-	13,300
Housing In-Lieu	58,883	-	-	58,883
Special districts	3,186	-	-	3,186
Downtown business	50	-	-	50
Assigned for:				
Unrealized gain on investment	1,052	-	-	1,052
Total fund balances	<u>113,342</u>	<u>8,404</u>	<u>2,556</u>	<u>124,302</u>
Total liabilities and fund balances	<u>\$ 114,212</u>	<u>\$ 8,404</u>	<u>\$ 2,556</u>	<u>\$ 125,172</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, 2021**  
**(Amounts in thousands)**

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total Other Governmental Funds
<b>REVENUES:</b>				
Property tax	\$ -	\$ 4,329	\$ -	\$ 4,329
Special assessments	5	-	-	5
Other taxes and fines	2,816	-	-	2,816
Intergovernmental	1,337	-	-	1,337
Licenses, permits and fees:				
University Avenue Parking	83	-	-	83
California Avenue Parking	22	-	-	22
Other licenses, permits and fees	2,056	-	-	2,056
Investment earnings	169	(10)	16	175
Housing In-Lieu - residential	5,804	-	-	5,804
Other revenue	154	-	-	154
<b>Total revenues</b>	<b>12,446</b>	<b>4,319</b>	<b>16</b>	<b>16,781</b>
<b>EXPENDITURES:</b>				
Current:				
Administrative Services	261	-	-	261
Public Works	1,427	-	-	1,427
Planning and Development Services	1,285	-	-	1,285
Office of Transportation	1,437	-	-	1,437
Police	36	-	-	36
Community Services	236	-	-	236
Non-Departmental	255	-	-	255
Debt service:				
Principal retirement	-	2,595	-	2,595
Interest and fiscal charges	-	6,147	-	6,147
<b>Total expenditures</b>	<b>4,937</b>	<b>8,742</b>	<b>-</b>	<b>13,679</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>7,509</b>	<b>(4,423)</b>	<b>16</b>	<b>3,102</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	570	2,910	-	3,480
Transfers out	(9,564)	-	-	(9,564)
<b>Total other financing sources (uses)</b>	<b>(8,994)</b>	<b>8,939</b>	<b>-</b>	<b>(55)</b>
Change in fund balances	(1,485)	4,516	16	3,047
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>114,827</b>	<b>3,888</b>	<b>2,540</b>	<b>121,255</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 113,342</b>	<b>\$ 8,404</b>	<b>\$ 2,556</b>	<b>\$ 124,302</b>



## **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, 2021**  
**(Amounts in thousands)**

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
<b>ASSETS:</b>				
Cash and investments available for operations	\$ -	\$ -	\$ 11,573	\$ 3,546
Receivables, net:				
Accounts and intergovernmental	234	283	-	-
Interest	-	-	92	27
Notes and loan receivable	-	5,351	47,500	-
Total assets	<u>\$ 234</u>	<u>\$ 5,634</u>	<u>\$ 59,165</u>	<u>\$ 3,573</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
Liabilities:				
Accounts payable and accruals	\$ -	\$ 203	\$ 10	\$ 282
Accrued salaries and benefits	-	3	1	26
Due to other funds	206	135	-	-
Total liabilities	<u>206</u>	<u>341</u>	<u>11</u>	<u>308</u>
Fund balances:				
Restricted				
Transportation mitigation	-	-	-	-
Federal revenue	-	5,293	-	-
Street improvement	28	-	-	-
Local law enforcement	-	-	-	-
Public benefit	-	-	-	-
Committed				
Developer impact fee	-	-	-	-
Housing In-Lieu	-	-	58,883	-
Special districts	-	-	-	3,186
Downtown business	-	-	-	-
Assigned				
Unrealized gains on investments	-	-	271	79
Total fund balances	<u>28</u>	<u>5,293</u>	<u>59,154</u>	<u>3,265</u>
Total liabilities and fund balances	<u>\$ 234</u>	<u>\$ 5,634</u>	<u>\$ 59,165</u>	<u>\$ 3,573</u>



Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total Special Revenue Funds
\$ 12,635	\$ 760	\$ 3	\$ 13,446	\$ 51	\$ 18,473	\$ 60,487
-	-	-	-	-	-	517
64	3	-	73	-	98	357
-	-	-	-	-	-	52,851
<u>\$ 12,699</u>	<u>\$ 763</u>	<u>\$ 3</u>	<u>\$ 13,519</u>	<u>\$ 51</u>	<u>\$ 18,571</u>	<u>\$ 114,212</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 495
-	-	-	4	-	-	34
-	-	-	-	-	-	341
-	-	-	4	-	-	870
12,512	-	-	-	-	-	12,512
-	-	-	-	-	-	5,293
-	-	-	-	-	-	28
-	753	3	-	-	-	756
-	-	-	-	-	18,282	18,282
-	-	-	13,300	-	-	13,300
-	-	-	-	-	-	58,883
-	-	-	-	-	-	3,186
-	-	-	-	50	-	50
187	10	-	215	1	289	1,052
<u>12,699</u>	<u>763</u>	<u>3</u>	<u>13,515</u>	<u>51</u>	<u>18,571</u>	<u>113,342</u>
<u>\$ 12,699</u>	<u>\$ 763</u>	<u>\$ 3</u>	<u>\$ 13,519</u>	<u>\$ 51</u>	<u>\$ 18,571</u>	<u>\$ 114,212</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, 2021**  
**(Amounts in thousands)**

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
<b>REVENUES:</b>				
Special assessments	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	2,793	-	-	23
Intergovernmental	-	1,172	-	-
Licenses, permits and fees:				
University Avenue Parking	-	-	-	83
California Avenue Parking	-	-	-	22
Other licenses, permits and fees	-	-	-	49
Investment earnings	(3)	-	9	1
Housing In-Lieu - residential	-	-	5,804	-
Other revenue	-	-	85	29
	<u>2,790</u>	<u>1,172</u>	<u>5,898</u>	<u>207</u>
Total revenues				
<b>EXPENDITURES:</b>				
Current:				
Administrative Services	-	-	-	261
Public Works	-	-	-	1,427
Planning and Development Services	-	1,100	179	6
Office of Transportation	-	-	-	1,437
Police	-	-	-	-
Community Services	-	-	-	32
Non-Departmental	-	-	75	160
	<u>-</u>	<u>1,100</u>	<u>254</u>	<u>3,323</u>
Total expenditures				
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>2,790</u>	<u>72</u>	<u>5,644</u>	<u>(3,116)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	400
Transfers out	(2,837)	-	-	(838)
	<u>(2,837)</u>	<u>-</u>	<u>-</u>	<u>(438)</u>
Total other financing sources (uses)				
Change in fund balances	(47)	72	5,644	(3,554)
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>75</u>	<u>5,221</u>	<u>53,510</u>	<u>6,819</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 28</u>	<u>\$ 5,293</u>	<u>\$ 59,154</u>	<u>\$ 3,265</u>



Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ 5	\$ -	\$ 5
-	-	-	-	-	-	2,816
-	165	-	-	-	-	1,337
-	-	-	-	-	-	83
-	-	-	-	-	-	22
429	-	-	1,578	-	-	2,056
66	7	-	14	-	75	169
-	-	-	-	-	-	5,804
-	-	-	40	-	-	154
495	172	-	1,632	5	75	12,446
-	-	-	-	-	-	261
-	-	-	-	-	-	1,427
-	-	-	-	-	-	1,285
-	-	-	-	-	-	1,437
-	36	-	-	-	-	36
-	-	-	204	-	-	236
-	-	-	-	20	-	255
-	36	-	204	20	-	4,937
495	136	-	1,428	(15)	75	7,509
-	-	-	170	-	-	570
(400)	-	-	(3,539)	-	(1,950)	(9,564)
(400)	-	-	(3,369)	-	(1,950)	(8,994)
95	136	-	(1,941)	(15)	(1,875)	(1,485)
12,604	627	3	15,456	66	20,446	114,827
\$ 12,699	\$ 763	\$ 3	\$ 13,515	\$ 51	\$ 18,571	113,342



**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, 2020**  
**(Amounts in thousands)**

	Street Improvement			Federal Revenue		
	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
<b>REVENUES:</b>						
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	2,793	2,793	-	-	-	-
Intergovernmental	-	-	-	1,384	1,172	(212)
Licenses, permits and fees						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other licenses, permits and fees	-	-	-	-	-	-
Investment earnings	9	(1)	(10)	-	-	-
Rental income	-	-	-	-	-	-
Housing In-Lieu - residential	-	-	-	-	-	-
Other:						
Loan payoffs	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
Total revenues	<u>2,802</u>	<u>2,792</u>	<u>(10)</u>	<u>1,384</u>	<u>1,172</u>	<u>(212)</u>
<b>EXPENDITURES:</b>						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Development Services	-	-	-	1,886	1,462	424
Office of Transportation	-	-	-	-	-	-
Police	-	-	-	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,886</u>	<u>1,462</u>	<u>424</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,802</u>	<u>2,792</u>	<u>(10)</u>	<u>(502)</u>	<u>(290)</u>	<u>212</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	-	-	-	-	-	-
Transfers out	<u>(2,837)</u>	<u>(2,837)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(2,837)</u>	<u>(2,837)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balances, budgetary basis	<u>\$ (35)</u>	<u>(45)</u>	<u>\$ (10)</u>	<u>\$ (502)</u>	<u>(290)</u>	<u>\$ 212</u>
<b>Adjustment to Budgetary Basis:</b>						
Unrealized gain (loss) on investments		(2)			-	
Changes in notes receivable		-			-	
Current year encumbrances/reappropriations		<u>-</u>			<u>362</u>	
<b>CHANGE IN FUND BALANCE, GAAP BASIS</b>		<u>(47)</u>			<u>72</u>	
<b>FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS</b>		<u>75</u>			<u>5,221</u>	
<b>FUND BALANCES, END OF YEAR, GAAP BASIS</b>		<u>\$ 28</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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	52	23	(29)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	2,464	83	(2,381)	-	-	-
-	-	-	880	22	(858)	-	-	-
-	-	-	1,198	49	(1,149)	276	429	153
463	366	(97)	109	92	(17)	260	217	(43)
9	-	(9)	-	-	-	-	-	-
2,150	5,804	3,654	-	-	-	-	-	-
25	-	(25)	-	-	-	-	-	-
170	85	(85)	-	29	29	-	-	-
2,817	6,255	3,438	4,703	298	(4,405)	536	646	110
-	-	-	330	261	69	-	-	-
-	-	-	1,697	1,634	63	-	-	-
20,462	20,720	(258)	1	7	(6)	-	-	-
-	-	-	3,539	2,005	1,534	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	43	42	1	-	-	-
695	75	620	206	410	(204)	-	-	-
21,157	20,795	362	5,816	4,359	1,457	-	-	-
(18,340)	(14,540)	3,800	(1,113)	(4,061)	(2,948)	536	646	110
-	-	-	400	400	-	-	-	-
-	-	-	(838)	(838)	-	(400)	(400)	-
-	-	-	(438)	(438)	-	(400)	(400)	-
<u>\$ (18,340)</u>	<u>(14,540)</u>	<u>\$ 3,800</u>	<u>\$ (1,551)</u>	<u>(4,499)</u>	<u>\$ (2,948)</u>	<u>\$ 136</u>	<u>246</u>	<u>\$ 110</u>
	(357)			(91)			(151)	
	18,752			-			-	
	1,789			1,036			-	
	5,644			(3,554)			95	
	53,510			6,819			12,604	
	<u>\$ 59,154</u>			<u>\$ 3,265</u>			<u>\$ 12,699</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, 2021**  
**(Amounts in Thousands)**

	Local Law Enforcement			Asset Seizure		
	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
<b>REVENUES:</b>						
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	-	-	-	-	-	-
Intergovernmental	105	165	60	-	-	-
Licenses, permits and fees						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other licenses, permits and fees	-	-	-	-	-	-
Investment earnings	7	11	4	-	-	-
Rental income	-	-	-	-	-	-
Housing In-Lieu - residential	-	-	-	-	-	-
Other:						
Loan payoffs	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
Total revenues	<u>112</u>	<u>176</u>	<u>64</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES:</b>						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Development Services	-	-	-	-	-	-
Office of Transportation	-	-	-	-	-	-
Police	105	36	69	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	-	-
Total expenditures	<u>105</u>	<u>36</u>	<u>69</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7</u>	<u>140</u>	<u>133</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
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>140</u>	<u>\$ 133</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
<b>Adjustment to Budgetary Basis:</b>						
Unrealized gain (loss) on investments		(4)			-	
Changes in notes receivable		-			-	
Current year encumbrances/reappropriations		-			-	
<b>CHANGE IN FUND BALANCE, GAAP BASIS</b>		<u>136</u>			<u>-</u>	
<b>FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS</b>		<u>627</u>			<u>3</u>	
<b>FUND BALANCES, END OF YEAR, GAAP BASIS</b>		<u>\$ 763</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
\$ -	\$ -	\$ -	\$ 140	\$ 5	\$ (135)	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
875	1,578	703	-	-	-	-	-	-
352	227	(125)	-	-	-	370	324	(46)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	40	40	-	-	-	-	-	-
1,227	1,845	618	140	5	(135)	370	324	(46)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
203	204	(1)	-	-	-	-	-	-
-	-	-	203	20	183	-	-	-
203	204	(1)	203	20	183	-	-	-
1,024	1,641	617	(63)	(15)	48	370	324	(46)
170	170	-	-	-	-	-	-	-
(3,539)	(3,539)	-	-	-	-	(1,950)	(1,950)	-
(3,369)	(3,369)	-	-	-	-	(1,950)	(1,950)	-
<u>\$ (2,345)</u>	<u>(1,728)</u>	<u>\$ 617</u>	<u>\$ (63)</u>	<u>(15)</u>	<u>\$ 48</u>	<u>\$ (1,580)</u>	<u>(1,626)</u>	<u>\$ (46)</u>
	(213)			-			(249)	
	-			-			-	
	-			-			-	
	(1,941)			(15)			(1,875)	
	15,456			66			20,446	
<u>\$ 13,515</u>			<u>\$ 51</u>			<u>\$ 18,571</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 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, 2021**  
**(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	\$ 1	\$ 5	\$ 3,722	\$ -	\$ 3,728
Receivables:					
Accounts and intergovernmental	-	-	2	-	2
Interest	-	-	19	-	19
Restricted cash and investments with fiscal agents	18	16	-	4,621	4,655
Total assets	<u>\$ 19</u>	<u>\$ 21</u>	<u>\$ 3,743</u>	<u>\$ 4,621</u>	<u>\$ 8,404</u>
FUND BALANCES:					
Restricted:					
Debt service	<u>\$ 19</u>	<u>\$ 21</u>	<u>\$ 3,743</u>	<u>\$ 4,621</u>	<u>\$ 8,404</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, 2021**  
**(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	\$ -	\$ -	\$ 4,329	\$ -	\$ 4,329
Investment earnings	-	-	(10)	-	(10)
Total revenues	-	-	4,319	-	4,319
EXPENDITURES:					
Debt service:					
Principal retirement	185	630	1,780	-	2,595
Interest and fiscal charges	345	1,748	2,646	1,408	6,147
Total expenditures	530	2,378	4,426	1,408	8,742
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(530)	(2,378)	(107)	(1,408)	(4,423)
OTHER FINANCING SOURCES (USES):					
Issuance of debt	-	-	-	6,029	6,029
Transfers in	530	2,380	-	-	2,910
Total other financing sources (uses)	530	2,380	-	6,029	8,939
Change in fund balances	-	2	(107)	4,621	4,516
FUND BALANCES, BEGINNING OF YEAR	19	19	3,850	-	3,888
FUND BALANCES, END OF YEAR	\$ 19	\$ 21	\$ 3,743	\$ 4,621	\$ 8,404



**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, 2021**  
**(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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,559	\$ 4,329	\$ (230)	\$ -	\$ -	\$ -
Investment earnings	-	-	-	-	-	-	29	32	3	-	-	-
Total revenues	-	-	-	-	-	-	4,588	4,361	(227)	-	-	-
EXPENDITURES:												
Debt service:												
Principal retirement	185	185	-	630	630	-	1,780	1,780	-	-	-	-
Interest and fiscal charges	345	345	-	1,750	1,748	2	2,646	2,646	-	1,408	1,408	-
Total expenditures	530	530	-	2,380	2,378	2	4,426	4,426	-	1,408	1,408	-
Excess (deficiency) of revenues over (under) expenditures	(530)	(530)	-	(2,380)	(2,378)	2	162	(65)	(227)	(1,408)	(1,408)	-
OTHER FINANCING SOURCES (USES):												
Issuance of debt	-	-	-	-	-	-	-	-	-	6,029	6,029	-
Transfers in	530	530	-	2,380	2,380	-	-	-	-	-	-	-
Total other financing sources (uses)	530	530	-	2,380	2,380	-	-	-	-	6,029	6,029	-
Change in fund balances, budgetary basis	\$ -	-	\$ -	\$ -	2	\$ 2	\$ 162	(65)	\$ (227)	\$ 4,621	4,621	\$ -
Adjustment to Budgetary Basis:												
Unrealized gain (loss) on investments		-			-			(42)			-	
CHANGE IN FUND BALANCE, GAAP BASIS		-			2			(107)			4,621	
FUND BALANCES, BEGINNING OF YEAR		19			19			3,850			-	
FUND BALANCES, END OF YEAR		\$ 19			\$ 21			\$ 3,743			\$ 4,621	



**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, 2021**  
**(Amounts in thousands)**

	Eyerly Family Permanent Fund		
	Budget	Actual, Budgetary Basis	Variance Positive (Negative)
REVENUES:			
Investment earnings	\$ 42	\$ 44	\$ 2
Change in fund balance	<u>\$ 42</u>	<u>44</u>	<u>\$ 2</u>
Adjustment to Budgetary Basis:			
Unrealized gain (loss) on investments		<u>(28)</u>	
CHANGE IN FUND BALANCE, GAAP BASIS		16	
FUND BALANCE, BEGINNING OF YEAR		<u>2,540</u>	
FUND BALANCE, END OF YEAR		<u>\$ 2,556</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, 2021**  
**(Amounts in thousands)**

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
<b>ASSETS:</b>								
Current Assets:								
Cash and investments available for operations	\$ 11,524	\$ 22,009	\$ 231	\$ 22,833	\$ 27,555	\$ 9,970	\$ 2,684	\$ 96,806
Accounts receivable, net	70	-	-	16	12	-	-	98
Interest receivable	62	119	1	108	134	50	10	484
Inventory of materials and supplies	116	-	-	-	-	-	-	116
Restricted cash and investments with fiscal agents and trustees	-	-	-	37,089	-	-	-	37,089
Total current assets	11,772	22,128	232	60,046	27,701	10,020	2,694	134,593
Noncurrent Assets:								
Capital assets:								
Nondepreciable	1,839	3,748	-	-	-	-	-	5,587
Depreciable, net	15,419	1,909	26	-	-	-	-	17,354
Total noncurrent assets	17,258	5,657	26	-	-	-	-	22,941
Total assets	29,030	27,785	258	60,046	27,701	10,020	2,694	157,534
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>								
Pension related	469	2,058	10	-	41	-	-	2,578
OPEB related	271	552	10	-	11	-	-	844
Total deferred outflows of resources	740	2,610	20	-	52	-	-	3,422
<b>LIABILITIES:</b>								
Current Liabilities:								
Accounts payable and accruals	62	195	105	1,253	94	-	-	1,709
Accrued salaries and benefits	37	140	2	-	71	-	-	250
Accrued compensated absences	-	-	-	6,327	-	-	-	6,327
Accrued claims payable - current	-	-	-	160	4,240	2,411	-	6,811
Total current liabilities	99	335	107	7,740	4,405	2,411	-	15,097
Noncurrent liabilities:								
Accrued compensated absences	-	-	-	9,320	-	-	-	9,320
Accrued claims payable	-	-	-	-	21,792	3,928	-	25,720
Net pension liabilities	3,704	13,567	273	-	4	-	-	17,548
Net OPEB liabilities	1,532	3,127	141	-	-	-	-	4,800
Total noncurrent liabilities	5,236	16,694	414	9,320	21,796	3,928	-	57,388
Total liabilities	5,335	17,029	521	17,060	26,201	6,339	-	72,485
<b>DEFERRED INFLOWS OF RESOURCES:</b>								
OPEB related	288	587	11	-	11	-	-	897
<b>NET POSITION:</b>								
Net Investment in capital assets	17,258	5,657	26	-	-	-	-	22,941
Restricted for supplemental pension	-	-	-	37,089	-	-	-	37,089
Unrestricted	6,889	7,122	(280)	5,897	1,541	3,681	2,694	27,544
Total net position	\$ 24,147	\$ 12,779	\$ (254)	\$ 42,986	\$ 1,541	\$ 3,681	\$ 2,694	\$ 87,574



**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
<b>OPERATING REVENUES:</b>								
Charges for services	\$ 6,522	\$ 12,322	\$ 1,314	\$ 72,224	\$ 6,578	\$ 2,892	\$ 13,577	\$ 115,429
Other	-	27	-	-	162	11	-	200
Total operating revenues	6,522	12,349	1,314	72,224	6,740	2,903	13,577	115,629
<b>OPERATING EXPENSES:</b>								
Administrative and general	1,478	7,801	948	137	613	2,208	27	13,212
Operations and maintenance	3,269	7,463	253	1,577	203	-	-	12,765
Depreciation	2,751	395	7	-	-	-	-	3,153
Claim payments and change in estimated self-insured liability	-	-	-	1,524	6,075	1,146	-	8,745
Refund of charges for services	105	10	-	-	-	-	-	115
Employment benefits	-	-	-	61,205	-	-	14,570	75,775
Total operating expenses	7,603	15,669	1,208	64,443	6,891	3,354	14,597	113,765
Operating income (loss)	(1,081)	(3,320)	106	7,781	(151)	(451)	(1,020)	1,864
<b>NONOPERATING REVENUES (EXPENSES):</b>								
Investment earnings	83	83	(1)	3,380	224	65	57	3,891
Gain on disposal of capital assets	385	-	-	-	-	-	-	385
Other nonoperating revenues	5	-	-	-	-	-	-	5
Total nonoperating revenues (expenses)	473	83	(1)	3,380	224	65	57	4,281
Income (loss) before transfers	(608)	(3,237)	105	11,161	73	(386)	(963)	6,145
Transfers in	105	1,340	-	-	-	5	2,347	3,797
Transfers out	(326)	(31)	-	(2,347)	-	-	-	(2,704)
Change in net position	(829)	(1,928)	105	8,814	73	(381)	1,384	7,238
NET POSITION, BEGINNING OF YEAR	24,976	14,707	(359)	34,172	1,468	4,062	1,310	80,336
NET POSITION, END OF YEAR	\$ 24,147	\$ 12,779	\$ (254)	\$ 42,986	\$ 1,541	\$ 3,681	\$ 2,694	\$ 87,574



**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Cash Flows**  
**For the Year Ended June 30, 2021**  
**(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	\$ 6,455	\$ 12,354	\$ 1,314	\$ 72,225	\$ 6,572	\$ 2,903	\$ 13,577	\$ 115,400
Cash payments to suppliers for goods and services	(2,895)	(7,615)	(1,011)	59	(430)	(2,218)	-	(14,110)
Cash payments to employees	(2,191)	(7,694)	(146)	(61,422)	(368)	-	(14,597)	(86,418)
Cash payments for judgments and claims	-	-	-	(1,524)	(3,814)	(427)	-	(5,765)
Other cash receipts	5	-	-	-	-	-	-	5
Net cash flows provided by (used in) operating activities	1,374	(2,955)	157	9,338	1,960	258	(1,020)	9,112
Cash flows from noncapital financing activities:								
Transfers in	105	1,340	-	-	-	5	2,347	3,797
Transfers out	(326)	(31)	-	(2,347)	-	-	-	(2,704)
Net cash flows provided by (used in) noncapital financing activities	(221)	1,309	-	(2,347)	-	5	2,347	1,093
Cash flows from capital and related financing activities:								
Acquisition of capital assets	(3,317)	(1,511)	-	-	-	-	-	(4,828)
Proceeds from sale of capital assets	484	-	-	-	-	-	-	484
Net cash flows (used in) capital and related financing activities	(2,833)	(1,511)	-	-	-	-	-	(4,344)
Cash flows from investing activities:								
Investment interest received (expenses paid)	88	110	(1)	3,377	223	66	51	3,914
Net change in cash and cash equivalents	(1,592)	(3,047)	156	10,368	2,183	329	1,378	9,775
Cash and cash equivalents, beginning of year	13,116	25,056	75	49,554	25,372	9,641	1,306	124,120
Cash and cash equivalents, end of year	\$ 11,524	\$ 22,009	\$ 231	\$ 59,922	\$ 27,555	\$ 9,970	\$ 2,684	\$ 133,895
Financial statement presentation:								
Cash and investments available for operations	\$ 11,524	\$ 22,009	\$ 231	\$ 22,833	\$ 27,555	\$ 9,970	\$ 2,684	\$ 96,806
Restricted cash and investments with fiscal agents and trustees	-	-	-	37,089	-	-	-	37,089
Cash and cash equivalents, end of year	\$ 11,524	\$ 22,009	\$ 231	\$ 59,922	\$ 27,555	\$ 9,970	\$ 2,684	\$ 133,895
Reconciliation of operating income (loss) to net cash flows provided by (used in) operating activities:								
Operating income (loss)	\$ (1,081)	\$ (3,320)	\$ 106	\$ 7,781	\$ (151)	\$ (451)	\$ (1,020)	\$ 1,864
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation	2,751	395	7	-	-	-	-	3,153
Other	5	-	-	-	-	-	-	5
Change in assets and liabilities:								
Accounts receivable	(67)	5	-	1	(6)	-	-	(67)
Inventory of materials and supplies	(14)	-	-	-	-	-	-	(14)
Deferred outflows of resources - pension plans	32	(330)	23	-	-	-	-	(275)
Deferred outflows of resources - OPEB	12	24	1	-	-	-	-	37
Accounts payable and accruals	(74)	(16)	63	153	25	(10)	-	141
Accrued salaries and benefits	3	9	(2)	-	37	-	-	47
Accrued compensated absences	-	-	-	1,403	-	-	-	1,403
Accrued claims payable	-	-	-	-	2,099	719	-	2,818
Net pension liability	8	747	(33)	-	(41)	-	-	681
Net OPEB liability	(29)	(58)	(2)	-	-	-	-	(89)
Deferred inflows of resources - pension plans	(131)	(326)	(3)	-	(2)	-	-	(462)
Deferred inflows of resources - OPEB	(41)	(85)	(3)	-	(1)	-	-	(130)
Net cash flows provided by (used in) operating activities	\$ 1,374	\$ (2,955)	\$ 157	\$ 9,338	\$ 1,960	\$ 258	\$ (1,020)	\$ 9,112



## **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, 2021**  
**(Amounts in thousands)**

	Cable Joint Powers Authority	University Avenue Area Off-Street Parking Assessment District	Total
<b>ASSETS:</b>			
Cash and investments available for operations (Note 3)	\$ 1,207	\$ 2,069	\$ 3,276
Accounts receivable	459	32	491
Interest receivable	5	11	16
Restricted cash and investments with fiscal agents (Note 3)	-	2,705	2,705
Total assets	1,671	4,817	6,488
<b>LIABILITIES:</b>			
Accounts payable and accruals	411	-	411
<b>NET POSITION:</b>			
Restricted for:			
Governmental entities	1,260	-	1,260
Bondholders of special assessment bonds	-	4,817	4,817
Total net position	\$ 1,260	\$ 4,817	\$ 6,077



**CITY OF PALO ALTO**  
**Custodial Funds**  
**Combining Statement of Changes in Fiduciary Net Position**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	Cable Joint Powers Authority	University Avenue Area Off-Street Parking Assessment District	Total
ADDITIONS:			
Franchise and other fees collected	\$ 1,821	\$ -	\$ 1,821
Special assessments collected	-	2,407	2,407
Investment earnings	14	(5)	9
Other	-	5	5
Total additions	<u>1,835</u>	<u>2,407</u>	<u>4,242</u>
DEDUCTIONS:			
Administrative and general	34	5	39
Distribution to governmental entities	1,538	-	1,538
Debt services payments	-	2,409	2,409
Total deductions	<u>1,572</u>	<u>2,414</u>	<u>3,986</u>
Changes in net position	263	(7)	256
NET POSITION, BEGINNING OF YEAR	<u>997</u>	<u>4,824</u>	<u>5,821</u>
NET POSITION, END OF YEAR	<u><u>\$ 1,260</u></u>	<u><u>\$ 4,817</u></u>	<u><u>\$ 6,077</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:

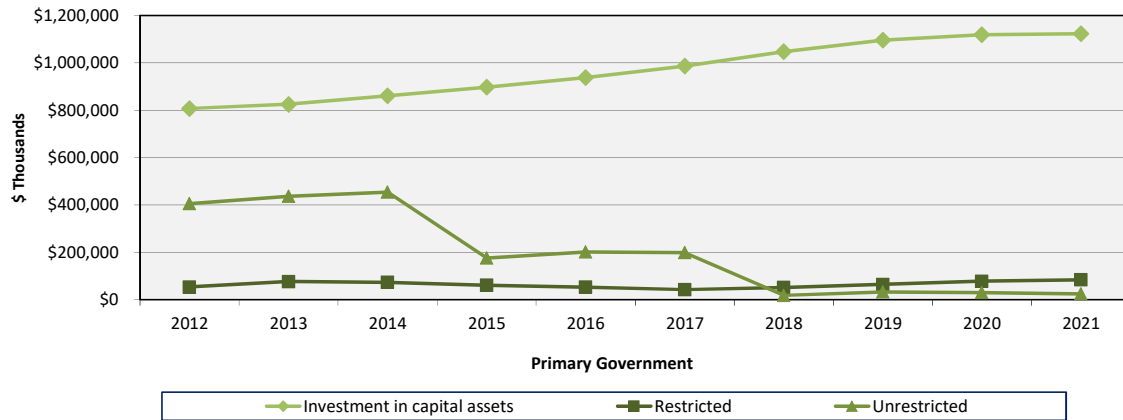
- Operating Indicators by Function/Program
- Capital Asset Statistics by Function/Program
- Full-Time Equivalent City Government Employees by Function

### 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									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Governmental Activities</b>										
Investment in capital assets	\$ 370,111	\$ 378,047	\$ 386,696	\$ 405,921	\$ 425,179	\$ 453,878	\$ 473,233	\$ 493,706	\$ 497,378	\$ 480,620
Restricted	52,934	71,717	68,331	55,963	47,907	38,138	46,724	59,669	73,274	80,265
Unrestricted	142,102	165,810	187,386	1,972	37,905	35,273	(92,587)	(103,392)	(130,078)	(137,748)
<b>Total Governmental Activities Net Position</b>	<b>\$ 565,147</b>	<b>\$ 615,574</b>	<b>\$ 642,413</b>	<b>\$ 463,856</b>	<b>\$ 510,991</b>	<b>\$ 527,289</b>	<b>\$ 427,370</b>	<b>\$ 449,983</b>	<b>\$ 440,574</b>	<b>\$ 423,137</b>
<b>Business-type Activities</b>										
Investment in capital assets	\$ 437,151	\$ 446,597	\$ 473,795	\$ 490,874	\$ 512,918	\$ 532,063	\$ 573,688	\$ 602,136	\$ 621,354	\$ 642,018
Restricted	-	4,060	4,166	4,142	4,115	4,073	4,014	4,016	4,060	3,340
Unrestricted	262,602	269,926	266,794	172,802	162,806	163,158	110,429	135,391	159,592	161,861
<b>Total Business-type Activities Net Position</b>	<b>\$ 699,753</b>	<b>\$ 720,583</b>	<b>\$ 744,755</b>	<b>\$ 667,818</b>	<b>\$ 679,839</b>	<b>\$ 699,294</b>	<b>\$ 688,131</b>	<b>\$ 741,543</b>	<b>\$ 785,006</b>	<b>\$ 807,219</b>
<b>Primary Government</b>										
Investment in capital assets	\$ 807,262	\$ 824,644	\$ 860,491	\$ 896,795	\$ 938,097	\$ 985,941	\$ 1,046,921	\$ 1,095,842	\$ 1,118,732	\$ 1,122,638
Restricted	52,934	75,777	72,497	60,105	52,022	42,211	50,738	63,685	77,334	83,605
Unrestricted	404,704	435,736	454,180	174,774	200,711	198,431	17,842	31,999	29,514	24,113
<b>Total Primary Government Net Position</b>	<b>\$ 1,264,900</b>	<b>\$ 1,336,157</b>	<b>\$ 1,387,168</b>	<b>\$ 1,131,674</b>	<b>\$ 1,190,830</b>	<b>\$ 1,226,583</b>	<b>\$ 1,115,501</b>	<b>\$ 1,191,526</b>	<b>\$ 1,225,580</b>	<b>\$ 1,230,356</b>

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

Source: Annual Financial Statements, Statement of Net Position



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

	Fiscal Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>PROGRAM REVENUES</b>										
<b><u>Governmental Activities</u></b>										
Charges for services										
Administrative Services	\$ 1,647	\$ 15,629	\$ 4,055	\$ 5,460	\$ 9,444	\$ 5,242	\$ 6,536	\$ 6,413	\$ 5,758	\$ 1,150
Public Works	1,008	1,314	1,093	1,209	599	878	781	1,478	990	937
Planning & Community Environment	31,491	28,768	12,896	8,090	9,071	6,067	5,119	11,997	-	-
Development Services <sup>1&amp;2</sup>	-	-	-	12,019	12,570	11,768	16,000	13,904	-	-
Planning & Development Services <sup>2</sup>	-	-	-	-	-	-	-	-	16,173	21,228
Office of Transportation <sup>3</sup>	-	-	-	-	-	-	-	-	1,161	80
Public Safety	15,658	16,139	14,902	15,726	13,945	12,670	13,507	14,179	12,101	11,135
Community Services	11,365	13,808	20,882	20,912	21,551	20,472	21,285	22,805	20,808	20,893
Library	1,600	187	166	137	198	139	145	134	94	47
Operating grants and contributions	3,441	5,038	5,360	5,300	2,164	1,990	14,054	2,100	2,619	3,033
Capital grants and contributions	1,064	515	917	619	344	1,929	1,534	8,247	9,021	11,326
<b>Total Governmental Activities</b>										
<b>Program Revenues</b>	<u>67,274</u>	<u>81,398</u>	<u>60,271</u>	<u>69,472</u>	<u>69,886</u>	<u>61,155</u>	<u>78,961</u>	<u>81,257</u>	<u>68,725</u>	<u>69,829</u>
<b><u>Business-type Activities</u></b>										
Charges for services										
Water	31,467	37,746	40,291	35,847	37,588	42,678	45,087	45,571	48,740	48,812
Electric	118,886	121,805	121,916	120,842	120,743	137,543	154,142	163,514	169,389	162,240
Fiber Optics	3,662	4,382	4,485	4,627	4,505	4,553	4,529	4,657	4,576	3,936
Gas	41,774	34,633	35,737	30,751	30,212	36,431	37,044	42,113	37,402	39,520
Wastewater Collection	14,942	16,077	15,599	16,182	16,496	17,748	17,990	20,219	20,933	20,484
Wastewater Treatment	22,200	21,528	18,460	24,120	23,825	23,649	27,382	27,573	29,310	30,522
Refuse	30,645	30,583	30,297	31,576	32,169	33,918	34,647	33,996	32,695	30,636
Storm Drainage	5,892	6,053	6,183	6,281	6,520	6,693	6,964	7,249	7,543	7,785
Airport	-	-	-	683	826	1,286	2,382	2,483	2,362	2,585
Operating grants and contributions	605	572	549	534	744	512	501	488	473	462
Capital grants and contributions	1,526	2,224	2,005	2,080	1,061	4,265	14,194	6,677	6,449	6,391
<b>Total Business-type Activities</b>										
<b>Program Revenues</b>	<u>271,599</u>	<u>275,603</u>	<u>275,522</u>	<u>273,523</u>	<u>274,689</u>	<u>309,276</u>	<u>344,862</u>	<u>354,540</u>	<u>359,872</u>	<u>353,373</u>
<b>Total Primary Government</b>										
<b>Program Revenues</b>	<u>\$ 338,873</u>	<u>\$ 357,001</u>	<u>\$ 335,793</u>	<u>\$ 342,995</u>	<u>\$ 344,575</u>	<u>\$ 370,431</u>	<u>\$ 423,823</u>	<u>\$ 435,797</u>	<u>\$ 428,597</u>	<u>\$ 423,202</u>
<b>EXPENSES</b>										
<b><u>Governmental Activities</u></b>										
City Council	\$ 345	\$ 94	\$ 387	\$ 271	\$ 352	\$ 329	\$ 345	\$ 270	\$ 172	\$ 178
City Manager	1,960	1,237	2,180	2,155	2,662	1,975	2,757	3,336	3,616	2,466
City Attorney	1,656	1,642	1,797	1,759	2,472	2,140	2,511	3,086	2,845	2,292
City Clerk	908	330	641	680	582	762	931	822	748	702
City Auditor	235	464	489	362	414	847	994	1,081	645	641
Administrative Services	10,100	7,614	11,388	9,980	10,637	11,887	13,949	19,169	15,919	22,985
Human Resources	1,071	1,420	1,346	1,464	2,224	2,272	2,674	3,021	3,060	2,518
Public Works	14,568	20,816	24,577	21,075	24,613	25,539	30,349	36,617	45,609	52,727
Planning & Community Environment <sup>2</sup>	12,074	13,549	14,926	8,423	10,208	10,918	11,357	12,169	-	-
Development Services <sup>1&amp;2</sup>	-	-	-	10,449	11,158	11,102	12,664	12,622	-	-
Planning & Development Services <sup>2</sup>	-	-	-	-	-	-	-	-	21,725	18,141
Office of Transportation <sup>3</sup>	-	-	-	-	-	-	-	-	4,693	3,636
Public Safety (Police and Fire)	62,817	59,452	62,883	58,660	56,653	73,320	83,923	89,189	92,187	80,758
Community Services	21,915	22,705	23,822	24,688	28,547	27,866	33,709	36,815	34,147	30,289
Library	7,323	7,319	7,758	7,721	10,825	11,437	12,208	12,557	12,971	11,145
Interest on long term debt	2,575	2,562	3,367	3,658	3,552	2,846	2,761	3,653	4,576	6,317
<b>Total Governmental</b>										
<b>Activities Expenses</b>	<u>137,547</u>	<u>139,204</u>	<u>155,561</u>	<u>151,345</u>	<u>164,899</u>	<u>183,240</u>	<u>211,132</u>	<u>234,407</u>	<u>242,913</u>	<u>234,795</u>
<b><u>Business-type Activities</u></b>										
Water	29,093	30,707	31,593	33,205	35,120	37,535	40,836	40,606	43,034	43,556
Electric	102,030	106,438	113,004	122,499	120,319	128,603	146,033	139,605	142,426	156,105
Fiber Optics	1,489	1,437	1,661	1,891	2,107	2,159	2,653	2,476	2,761	2,529
Gas	28,878	26,749	26,869	23,525	20,879	26,783	27,930	30,915	27,212	28,556
Wastewater Collection	14,825	14,313	13,235	14,595	15,199	16,405	16,801	17,324	18,877	19,577
Wastewater Treatment	20,712	20,635	21,018	21,553	22,546	23,498	27,518	27,070	28,755	28,403
Refuse	31,900	28,542	28,413	27,974	30,370	30,665	28,808	30,391	36,947	29,138
Storm Drainage	3,103	3,703	3,644	3,721	3,735	4,106	5,059	4,951	5,514	4,897
Airport	153	246	466	1,004	970	1,274	1,656	1,790	2,131	1,499
<b>Total Business-type</b>										
<b>Activities Expenses</b>	<u>232,183</u>	<u>232,770</u>	<u>239,903</u>	<u>249,967</u>	<u>251,245</u>	<u>271,028</u>	<u>297,294</u>	<u>295,128</u>	<u>307,657</u>	<u>314,260</u>
<b>Total Primary</b>										
<b>Government Expenses</b>	<u>\$ 369,730</u>	<u>\$ 371,974</u>	<u>\$ 395,464</u>	<u>\$ 401,312</u>	<u>\$ 416,144</u>	<u>\$ 454,268</u>	<u>\$ 508,426</u>	<u>\$ 529,535</u>	<u>\$ 550,570</u>	<u>\$ 549,055</u>



	Fiscal Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>NET (EXPENSE)/REVENUE</b>										
Governmental Activities	\$ (70,273)	\$ (57,806)	\$ (95,290)	\$ (81,873)	\$ (95,013)	\$ (122,085)	\$ (132,171)	\$ (153,150)	\$ (174,188)	\$ (164,966)
Business-type Activities	39,416	42,833	35,619	23,556	23,444	38,248	47,568	59,412	52,215	39,113
<b>Total Primary Government</b>										
<b>Net (Expense)/Revenue</b>	<u>\$ (30,857)</u>	<u>\$ (14,973)</u>	<u>\$ (59,671)</u>	<u>\$ (58,317)</u>	<u>\$ (71,569)</u>	<u>\$ (83,837)</u>	<u>\$ (84,603)</u>	<u>\$ (93,738)</u>	<u>\$ (121,973)</u>	<u>\$ (125,853)</u>
<b>GENERAL REVENUES AND OTHER CHANGES IN NET POSITION</b>										
<b><u>Governmental Activities</u></b>										
Taxes										
Property tax	\$ 30,104	\$ 31,929	\$ 35,299	\$ 38,750	\$ 41,189	\$ 43,953	\$ 47,170	\$ 51,718	\$ 55,604	\$ 60,901
Sales tax	22,132	25,606	29,424	29,675	30,018	29,923	31,091	36,508	30,563	29,127
Utility user tax	10,834	10,861	11,008	10,861	12,469	14,240	15,414	16,402	16,140	14,642
Transient occupancy tax	9,664	10,794	12,255	16,699	22,366	23,477	24,937	25,649	18,553	5,179
Other taxes	8,173	10,504	9,660	11,867	7,868	8,989	11,337	9,525	9,775	13,471
Investment earnings	6,238	(1,228)	5,859	5,010	8,639	(711)	420	15,375	13,850	4,939
Miscellaneous	14,943	518	2,575	3,428	894	168	1,973	1,906	60	183
Transfers	17,426	19,249	17,103	16,405	18,705	18,344	19,077	18,680	20,234	19,087
<b>Total Governmental Activities</b>	<u>119,514</u>	<u>108,233</u>	<u>123,183</u>	<u>132,695</u>	<u>142,148</u>	<u>138,383</u>	<u>151,419</u>	<u>175,763</u>	<u>164,779</u>	<u>147,529</u>
<b><u>Business-type Activities</u></b>										
Investment earnings	7,605	(2,754)	6,379	4,857	7,282	(449)	596	12,680	11,482	2,187
Transfers	(17,426)	(19,249)	(17,103)	(16,405)	(18,705)	(18,344)	(19,077)	(18,680)	(20,234)	(19,087)
<b>Total Business-type Activities</b>	<u>(9,821)</u>	<u>(22,003)</u>	<u>(10,724)</u>	<u>(11,548)</u>	<u>(11,423)</u>	<u>(18,793)</u>	<u>(18,481)</u>	<u>(6,000)</u>	<u>(8,752)</u>	<u>(16,900)</u>
<b>Total Primary Government</b>	<u>\$ 109,693</u>	<u>\$ 86,230</u>	<u>\$ 112,459</u>	<u>\$ 121,147</u>	<u>\$ 130,725</u>	<u>\$ 119,590</u>	<u>\$ 132,938</u>	<u>\$ 169,763</u>	<u>\$ 156,027</u>	<u>\$ 130,629</u>
<b>CHANGE IN NET POSITION</b>										
Governmental Activities	\$ 49,241	\$ 50,427	\$ 27,893	\$ 50,822	\$ 47,135	\$ 16,298	\$ 19,248	\$ 22,613	\$ (9,409)	\$ (17,437)
Business-type Activities	29,595	20,830	24,895	12,008	12,021	19,455	29,087	53,412	43,463	22,213
<b>Total Primary Government</b>										
<b>Change in Net Position</b>	<u>\$ 78,836</u>	<u>\$ 71,257</u>	<u>\$ 52,788</u>	<u>\$ 62,830</u>	<u>\$ 59,156</u>	<u>\$ 35,753</u>	<u>\$ 48,335</u>	<u>\$ 76,025</u>	<u>\$ 34,054</u>	<u>\$ 4,776</u>

Notes:

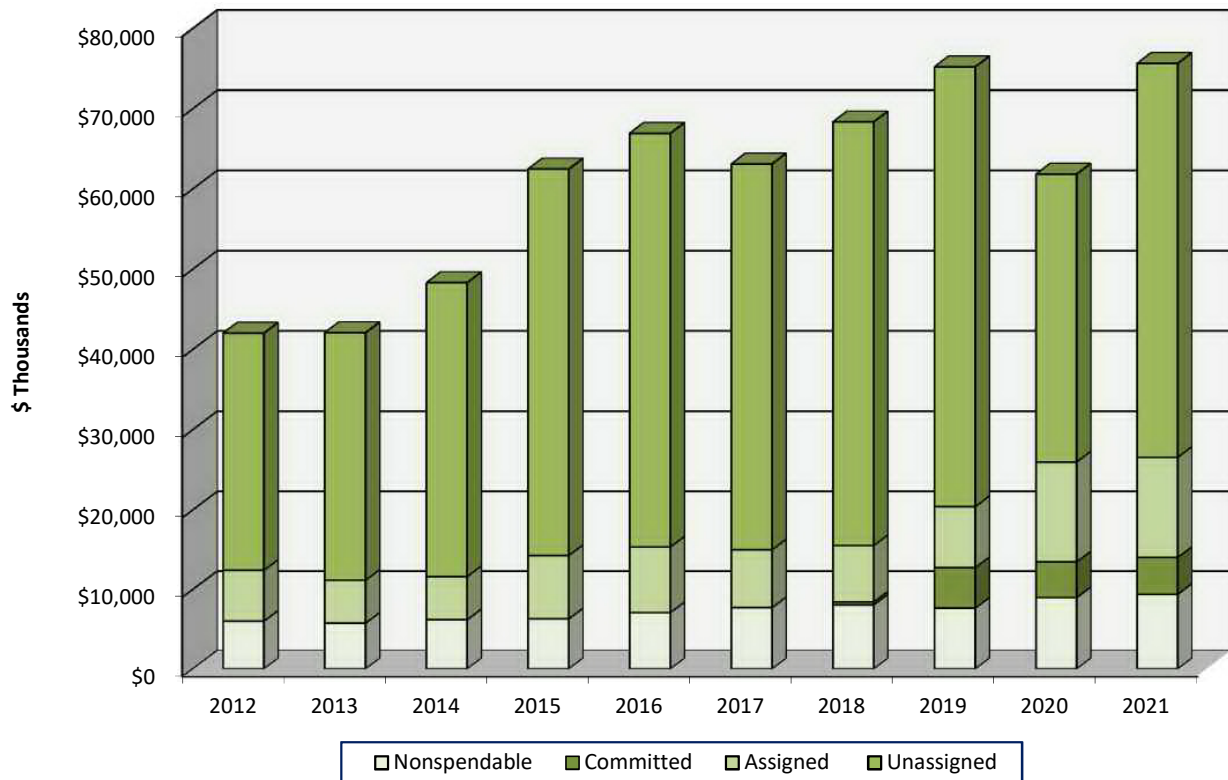
<sup>1</sup>The Development Services Department was formed in FY15.<sup>2</sup>In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.<sup>3</sup>In FY20, the City established the Office 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)**

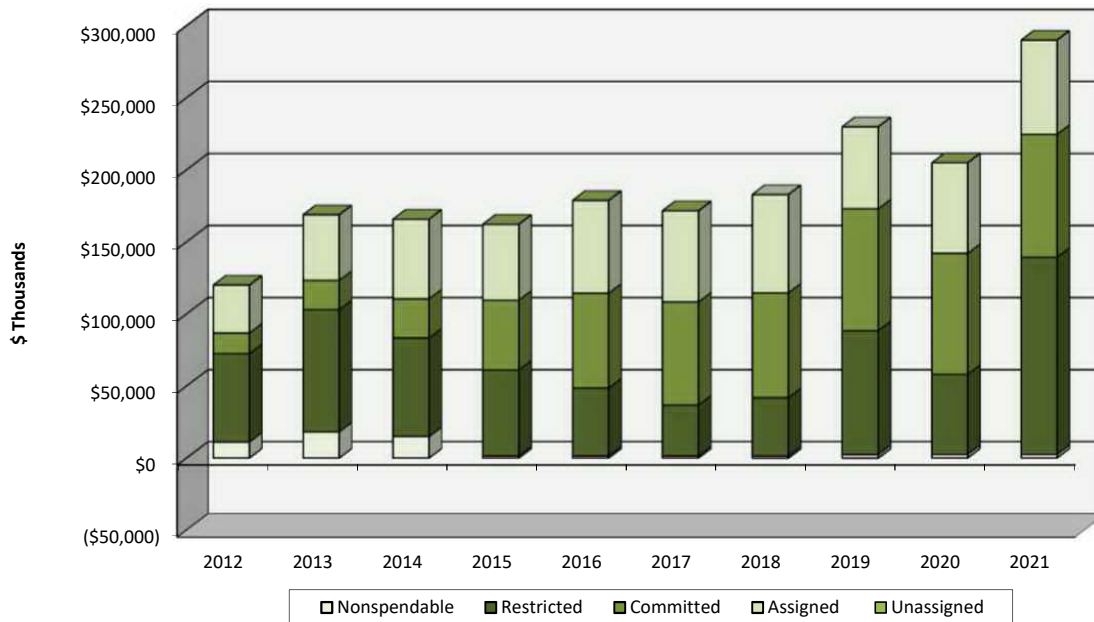


		Fiscal Year Ended June 30									
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>General Fund</b>											
Nonspendable	\$	6,007	\$ 5,749	\$ 6,188	\$ 6,296	\$ 7,088	\$ 7,709	\$ 8,049	\$ 7,647	\$ 8,967	\$ 9,376
Committed		-	-	-	-	-	-	373	5,100	4,505	4,651
Assigned		6,400	5,415	5,432	7,976	8,261	7,280	7,098	7,657	12,496	12,520
Unassigned		29,616	30,913	36,690	48,198	51,582	48,118	52,826	54,811	35,871	49,089
<b>Total General Fund</b>	<b>\$</b>	<b>42,023</b>	<b>42,077</b>	<b>48,310</b>	<b>62,470</b>	<b>66,931</b>	<b>63,107</b>	<b>68,346</b>	<b>75,215</b>	<b>61,839</b>	<b>75,636</b>

Source: Annual Financial Statements, Balance Sheet



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



	Fiscal Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>All Other Governmental Funds</b>										
Nonspendable	\$ 11,112	\$ 18,189	\$ 14,869	\$ 1,468	\$ 1,505	\$ 1,499	\$ 1,498	\$ 2,438	\$ 2,540	\$ 2,556
Restricted	61,324	84,688	68,468	59,650	47,113	35,298	40,317	85,940	55,548	136,795
Committed	14,284	20,400	27,145	48,434	65,745	71,566	72,781	84,616	83,973	85,324
Assigned	33,264	45,514	55,211	52,627	64,411	63,225	68,261	56,842	62,825	65,331
Unassigned	-	-	-	-	-	-	(32)	(32)	-	-
<b>Total All Other Governmental Funds</b>	<u>\$ 119,984</u>	<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>

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									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenues</b>										
Property tax	\$ 30,216	\$ 32,040	\$ 35,393	\$ 38,836	\$ 41,289	\$ 44,050	\$ 47,242	\$ 51,776	\$ 55,628	\$ 60,906
Sales tax	22,132	25,606	29,424	29,675	30,018	29,923	31,091	36,508	30,563	29,127
Other taxes and fines	29,231	32,141	35,305	41,576	44,909	48,875	53,837	53,525	45,729	33,947
Contributions <sup>5</sup>	-	-	-	-	-	-	11,733	-	-	-
Charges for services	46,273	38,976	23,962	25,973	23,910	22,267	26,835	27,346	24,127	25,106
From other agencies	1,116	4,109	5,700	7,727	4,417	5,443	5,392	4,689	12,315	15,252
Permits and licenses	7,136	8,218	8,990	9,179	11,228	10,523	12,786	17,759	13,144	9,422
Interest and rentals	18,583	12,136	18,445	18,658	22,269	15,348	16,288	32,905	26,123	20,145
Other revenue	12,739	17,570	7,471	12,837	13,827	4,985	6,067	7,955	1,091	1,033
<b>Total Revenues</b>	<b>167,426</b>	<b>170,796</b>	<b>164,690</b>	<b>184,461</b>	<b>191,867</b>	<b>181,414</b>	<b>211,271</b>	<b>232,463</b>	<b>208,720</b>	<b>194,938</b>
<b>Expenditures</b>										
Administration <sup>1</sup>	9,412	8,291	9,961	10,806	11,501	13,192	14,721	15,799	16,527	13,954
Public Works	11,304	11,489	12,439	12,276	13,112	14,485	15,426	14,764	14,793	14,692
Planning and Community Environment <sup>3</sup>	11,966	13,474	14,761	8,628	9,722	10,568	10,332	10,911	-	-
Development Services <sup>2,3</sup>	-	-	-	11,152	10,643	10,908	11,749	11,549	-	-
Planning and Development Services <sup>2</sup>	-	-	-	-	-	-	-	-	20,170	17,115
Office of Transportation <sup>4</sup>	-	-	-	-	-	-	-	-	4,175	3,373
Public Safety (Police and Fire)	62,418	59,537	62,028	61,447	63,784	71,164	73,916	76,344	82,173	76,282
Community Services	20,860	21,661	22,644	23,553	25,511	25,408	29,831	31,619	29,868	26,490
Library	7,072	6,902	7,340	7,980	7,960	8,953	9,120	9,288	9,988	8,528
Non-departmental	6,819	4,567	8,135	6,180	8,068	6,566	7,579	12,231	9,498	4,854
Capital Outlay	29,154	29,542	37,035	41,754	24,457	39,643	40,971	46,914	66,362	48,114
Debt service - principal payments	1,743	1,489	1,524	1,948	7,130	2,066	2,961	2,101	2,280	2,595
Debt service - interest and fiscal fees	2,757	2,659	3,196	3,404	4,266	3,032	2,956	3,398	5,025	6,147
Payment to bond refunding escrow	586	540	-	-	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>164,091</b>	<b>160,151</b>	<b>179,063</b>	<b>189,128</b>	<b>186,154</b>	<b>205,985</b>	<b>219,562</b>	<b>234,918</b>	<b>260,859</b>	<b>222,144</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>3,335</b>	<b>10,645</b>	<b>(14,373)</b>	<b>(4,667)</b>	<b>5,713</b>	<b>(24,571)</b>	<b>(8,291)</b>	<b>(2,455)</b>	<b>(52,139)</b>	<b>(27,206)</b>
<b>Other Financing Sources (Uses)</b>										
Issuance of Debt	-	-	-	-	-	-	8,970	42,297	-	101,505
Original debt premium	-	-	-	-	-	-	-	-	-	6,524
Proceeds from sale of capital assets	-	-	-	-	-	-	-	2,442	-	100
Transfers in	47,200	50,343	41,683	45,137	61,835	58,331	56,882	54,711	58,397	43,558
Transfers out	(29,782)	(33,833)	(24,175)	(29,824)	(46,492)	(44,770)	(41,085)	(43,147)	(44,552)	(25,564)
Proceeds from long term debt	3,222	21,706	-	-	-	-	-	-	-	-
Payments to refund bond escrow	(3,104)	-	-	-	-	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>17,536</b>	<b>38,216</b>	<b>17,508</b>	<b>15,313</b>	<b>15,343</b>	<b>13,561</b>	<b>24,767</b>	<b>56,303</b>	<b>13,845</b>	<b>126,123</b>
<b>Net Change in Fund Balances</b>	<b>\$ 20,871</b>	<b>\$ 48,861</b>	<b>\$ 3,135</b>	<b>\$ 10,646</b>	<b>\$ 21,056</b>	<b>\$ (11,010)</b>	<b>\$ 16,476</b>	<b>\$ 53,848</b>	<b>\$ (38,294)</b>	<b>\$ 98,917</b>
<b>Debt Service as a Percentage of Non-Capital Expenditures</b>										
	3.3%	2.6%	2.6%	2.8%	6.1%	2.5%	2.7%	2.3%	2.8%	4.6%

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

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

<sup>3</sup> In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.

<sup>4</sup> In FY20, the City established the Office of Transportation.

<sup>5</sup> 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)**

<b>Fiscal Year</b>	<b>Residential</b>	<b>Commercial &amp; Industrial</b>	<b>City of Palo Alto</b>	<b>Total</b>
2012	20,328	85,895	3,352	109,575
2013	19,951	86,998	3,265	110,214
2014	18,744	88,419	3,225	110,388
2015	17,404	88,257	3,234	108,895
2016	18,191	86,715	3,127	108,033
2017	20,269	90,635	3,780	114,684
2018	22,764	100,200	4,264	127,228
2019	23,613	103,509	4,404	131,526
2020	25,466	107,335	4,286	137,087
2021	26,719	98,582	4,167	129,468

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

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

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

<sup>1</sup>The top ten customers accounted for approximately 38.1% of total kWh consumption (309,840,850 kWh) and 33.9% of revenue (\$45,815,976). 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% of total kWh consumption and 1.9% of revenue. Revenue used to determine top ten electric customers includes metered and non-metered charges, adjustments, surcharges and discounts. Revenue does not include Utility Users Tax (UUT) and deposits.

	<b>Average Installations Billed<sup>1</sup></b>	<b>Kilowatt-hour Sales (kWh)</b>	<b>Revenue</b>
Residential	25,074	165,102,659	\$ 26,719
Commercial	3,599	501,635,237	81,235
Industrial	62	122,154,960	17,347
City of Palo Alto	143	24,991,825	4,167
<b>Total</b>	<b>28,878</b>	<b>813,884,681</b>	<b>\$ 129,468</b>

<sup>1</sup>Values provided are in terms of average number of meters (installations) billed per month. 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, 2021**

<b>Source</b>	<b>Capacity Available (MW)</b>	<b>Actual Energy (GWh)</b>	<b>Percent of Total Energy</b>
Purchased Power:			
Solar	130	311	38%
Wind	21	120	15%
Landfill Gas	14	104	13%
Hydro (NCPA)	58	49	6%
Hydro (Western)	182	246	30%
Net Forward Market Sales/Purchases	60	(30)	-4%
Net Spot Market Sales/Purchases	-	27	3%
Total	N/A <sup>1</sup>	827	100%

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

In the fiscal year ended June 30, 2021, Palo Alto's average cost of power delivered to the Palo Alto electric system was approximately \$0.10 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, 2021**

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

City of Palo Alto  
Palo Alto Hills Golf & Country Club  
Lucille Packard Children's Hospital  
Palo Alto Unified School District  
Simon Property Group  
Stanford Hospital & Clinics  
Stanford West Management  
Veterans Administration Hospital  
Vi at Palo Alto  
VMware, Inc.

The top ten customers total consumption is 866,031 CCF with revenue of \$8,293,613. This amount accounts for approximately 18.2% of total consumption and 16.6% of total revenue. The largest top ten customer (other than the City of Palo Alto) accounted for 2.1% of consumption and 2.1% of revenue. The smallest top ten customer accounted for 0.7% of consumption and 0.6% 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, 2021**

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

City of Palo Alto  
 Genencor International  
 Lucille Packard Children's Hospital  
 Palo Alto Unified School District  
 Space Systems/Loral, LLC  
 Stanford Health Care  
 Stanford Hospital & Clinics  
 Stanford University  
 Veterans Administration Hospital  
 VMWare, Inc.

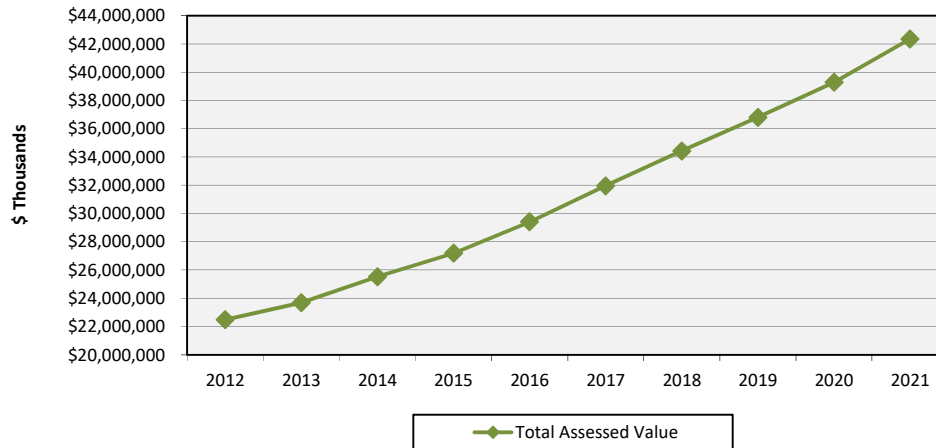
The top ten customers total consumption is 5,993,550 THM with revenue of \$7,292,737. This amount accounts for approximately 23.4% of total consumption and 18.9% of total revenue. The largest top ten customer (other than the City of Palo Alto) accounted for 8.1% of consumption and 6.3% of revenue. The 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)**



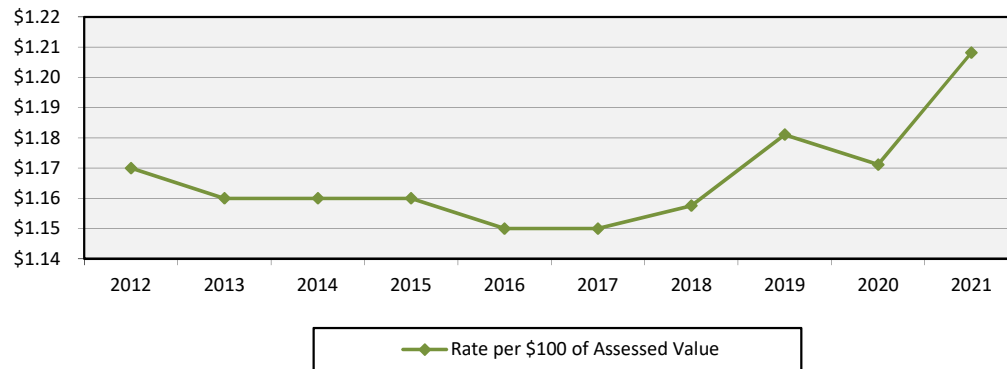
	Fiscal Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Net Local Secured Roll</b>										
Land	\$ 11,352,993	\$ 12,255,515	\$ 13,357,851	\$ 14,409,837	\$ 15,718,665	\$ 17,333,969	\$ 18,770,642	\$ 20,386,904	\$ 22,186,582	\$ 24,028,178
Improvements	11,703,597	12,381,306	12,984,735	13,633,986	14,998,502	16,752,295	18,642,970	19,845,666	21,183,768	22,706,856
Personal property	257,436	287,296	307,499	290,590	310,929	306,576	300,352	181,381	194,646	198,396
	23,314,026	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
<b>Less:</b>										
Exemptions net of state aid	(2,346,728)	(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)
<b>Total Net Local Secured Roll</b>	<b>20,967,298</b>	<b>22,334,464</b>	<b>24,039,564</b>	<b>25,572,918</b>	<b>27,618,260</b>	<b>30,148,340</b>	<b>32,509,996</b>	<b>34,891,628</b>	<b>37,331,776</b>	<b>40,152,307</b>
Public utilities	2,573	2,573	2,573	2,573	2,573	2,573	2,573	7,004	7,004	7,004
Unsecured property	1,516,837	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
<b>Total Assessed Value</b>	<b>\$ 22,486,708</b>	<b>\$ 23,693,007</b>	<b>\$ 25,536,059</b>	<b>\$ 27,198,127</b>	<b>\$ 29,415,754</b>	<b>\$ 31,954,381</b>	<b>\$ 34,434,739</b>	<b>\$ 36,801,413</b>	<b>\$ 39,285,460</b>	<b>\$ 42,353,926</b>
<b>Total Direct Tax Rate</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>

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 <sup>1</sup>	County Affordable Housing Bond (Measure A) <sup>2</sup>	Total Direct and Overlapping Rates
2012	1.00	0.0388	0.0047	0.0155	0.0064	0.0742	0.0297	-	-	1.17
2013	1.00	0.0388	0.0051	0.0129	0.0069	0.0718	0.0287	-	-	1.16
2014	1.00	0.0388	0.0035	0.0177	0.0070	0.0655	0.0290	-	-	1.16
2015	1.00	0.0388	0.0091	0.0159	0.0065	0.0657	0.0276	-	-	1.16
2016	1.00	0.0388	0.0088	0.0148	0.0057	0.0604	0.0240	0.0008	-	1.15
2017	1.00	0.0388	0.0086	0.0129	0.0086	0.0591	0.0234	0.0006	-	1.15
2018	1.00	0.0388	0.0082	0.0118	0.0062	0.0570	0.0220	0.0009	0.0127	1.16
2019	1.00	0.0388	0.0072	0.0111	0.0042	0.0858	0.0217	0.0018	0.0105	1.18
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

Notes: <sup>1</sup>The 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.

<sup>2</sup>The 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 <sup>1</sup>	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years <sup>2</sup>	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2012	\$ 26,494	\$ 26,494	100%	-	\$ 26,494	100%
2013	28,742	28,742	100%	-	28,742	100%
2014	30,587	30,587	100%	-	30,587	100%
2015	34,117	34,117	100%	-	34,117	100%
2016	36,607	36,607	100%	-	36,607	100%
2017	39,381	39,381	100%	-	39,381	100%
2018	42,839	42,839	100%	-	42,839	100%
2019	47,327	47,327	100%	-	47,327	100%
2020	51,089	51,089	100%	-	51,089	100%
2021	56,572	56,572	100%	-	56,572	100%

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

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

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



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

Taxpayer	Fiscal Year 2021			Fiscal Year 2012		
	Taxable Assessed	Rank	Percentage of Total Taxable	Taxable Assessed	Rank	Percentage of Total Taxable
	Value		Assessed Value	Value		Assessed Value
Leland Stanford Jr. University	\$ 6,529,897	1	15.4%	\$ 3,035,075	1	13.5%
Google Inc.	303,697	2	0.7%			
ARE-San Francisco 80 LLC	291,000	3	0.7%			
SVF Sherman Palo Alto Corporation	143,575	4	0.3%			
ARE-San Francisco 69 LLC	141,494	5	0.3%			
395 Page Mill LLC	123,083	6	0.3%			
530 Lytton Owner LLC	119,850	7	0.3%			
Hohbach Realty Co. LP	110,392	8	0.3%			
SI 45 LLC	84,423	9	0.2%			
PA Hotel Holdings LLC	82,600	10	0.2%			
Space Systems/Loral, Inc.				226,246	2	1.0%
Arden Realty Limited Partnership				112,472	3	0.5%
Whisman Ventures, LLC				105,066	4	0.5%
ECI 2 Bayshore LLC/ECI Hamilton LLC				73,901	5	0.3%
Ronald & Ann Williams Charitable Foundation				58,804	6	0.3%
Blackhawk Parent LLC				50,196	7	0.2%
300 / 400 Hamilton Associates				41,433	8	0.2%
Thoit Bros., Inc.				31,740	9	0.1%
529 Bryant St.				31,737	10	0.1%
Total	<u>\$ 7,930,011</u>		<u>18.7%</u>	<u>\$ 3,766,670</u>		<u>16.7%</u>

**Total City Taxable Assessed Value:**

FY 2021	\$ 42,353,926
FY 2012	\$ 22,486,708

Source: California Municipal Statistics, Inc.



**CITY OF PALO ALTO**  
**Assessed Valuation and Parcels by Land Use**  
**As of June 30, 2021**

	<b>2020-2021</b>				<b>No. of</b>	
	<b>Assessed</b>	<b>% of</b>	<b>No. of</b>	<b>% of</b>	<b>Taxable</b>	<b>% of</b>
	<b>Valuation<sup>1</sup></b>	<b>Total</b>	<b>Parcels</b>	<b>Total</b>	<b>Parcels</b>	<b>Total</b>
<b>Non-Residential:</b>						
Agricultural/forest	\$ 37,697,860	0.09 %	49	0.23 %	31	0.15 %
Commercial	2,192,486,496	5.46	459	2.20	457	2.23
Professional/office	6,506,771,625	16.21	560	2.68	540	2.64
Industrial/research & development	2,295,767,267	5.72	230	1.10	229	1.12
Recreational	77,145,645	0.19	16	0.08	14	0.07
Government/social/institutional	44,228,709	0.11	115	0.55	50	0.24
Miscellaneous	<u>11,435,206</u>	<u>0.03</u>	<u>18</u>	<u>0.09</u>	<u>17</u>	<u>0.08</u>
Subtotal Non-Residential	11,165,532,808	27.81	1,447	6.92	1,338	6.53
<b>Residential:</b>						
Single family residence	23,266,022,527	57.94	15,096	72.20	15,024	73.31
Condominium/townhouse	2,863,724,800	7.13	3,151	15.07	3,146	15.35
Mobile Home	114,938	0.00	8	0.04	8	0.04
2-4 Residential units	534,551,067	1.33	497	2.38	497	2.43
5+ Residential units	<u>1,944,144,849</u>	<u>4.84</u>	<u>345</u>	<u>1.65</u>	<u>329</u>	<u>1.61</u>
Subtotal Residential	28,608,558,181	71.25	19,097	91.33	19,004	92.73
<b>Vacant Parcels</b>	<u>378,215,314</u>	<u>0.94</u>	<u>365</u>	<u>1.75</u>	<u>151</u>	<u>0.74</u>
<b>Total</b>	<u>\$ 40,152,306,303</u>	<u>100 %</u>	<u>20,909</u>	<u>100 %</u>	<u>20,493</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.

<sup>1</sup>Local secured assessed valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.



**CITY OF PALO ALTO**  
**Per Parcel Assessed Valuation of Single Family Residential**  
**As of June 30, 2021**

	<b>No. of Taxable Parcels<sup>1</sup></b>	<b>2020-2021 Assessed Valuation</b>	<b>Average Assessed Valuation</b>	<b>Median Assessed Valuation</b>
Single Family Residential	15,024	\$23,266,022,527	\$1,548,590	\$1,096,758

<b>2020-2021 Assessed Valuation</b>	<b>No. of Taxable Parcels<sup>1</sup></b>	<b>% of Total Parcels</b>	<b>Cumulative % of Total Parcels</b>	<b>Total Valuation</b>	<b>% of Total Valuation</b>	<b>Cumulative % of Total Valuation</b>
\$0-99,999	774	5.15 %	5.15 %	\$ 62,751,790	0.27 %	0.27 %
\$100,000-199,999	1,627	10.83	15.98	226,741,966	0.97	1.24
\$200,000-299,999	736	4.90	20.88	181,708,519	0.78	2.03
\$300,000-399,999	636	4.23	25.11	221,115,384	0.95	2.98
\$400,000-499,999	552	3.67	28.79	248,397,391	1.07	4.04
\$500,000-599,999	565	3.76	32.55	311,648,230	1.34	5.38
\$600,000-699,999	604	4.02	36.57	392,667,685	1.69	7.07
\$700,000-799,999	534	3.55	40.12	401,042,038	1.72	8.79
\$800,000-899,999	445	2.96	43.08	377,885,136	1.62	10.42
\$900,000-999,999	517	3.44	46.53	492,018,891	2.11	12.53
\$1,000,000-1,099,999	517	3.44	49.97	542,105,280	2.33	14.86
\$1,100,000-1,199,999	484	3.22	53.19	557,127,718	2.39	17.26
\$1,200,000-1,299,999	432	2.88	56.06	539,458,161	2.32	19.58
\$1,300,000-1,399,999	361	2.40	58.47	487,217,064	2.09	21.67
\$1,400,000-1,499,999	392	2.61	61.08	566,176,362	2.43	24.10
\$1,500,000-1,599,999	369	2.46	63.53	571,850,964	2.46	26.56
\$1,600,000-1,699,999	353	2.35	65.88	582,441,439	2.50	29.07
\$1,700,000-1,799,999	325	2.16	68.04	567,977,334	2.44	31.51
\$1,800,000-1,899,999	297	1.98	70.02	548,853,685	2.36	33.87
\$1,900,000-1,999,999	283	1.88	71.90	551,751,152	2.37	36.24
\$2,000,000 and greater	4,221	28.10	100.00	14,835,086,338	63.76	100.00
Total	<u>15,024</u>	<u>100.00</u> %		<u>\$ 23,266,022,527</u>	<u>100.00</u> %	

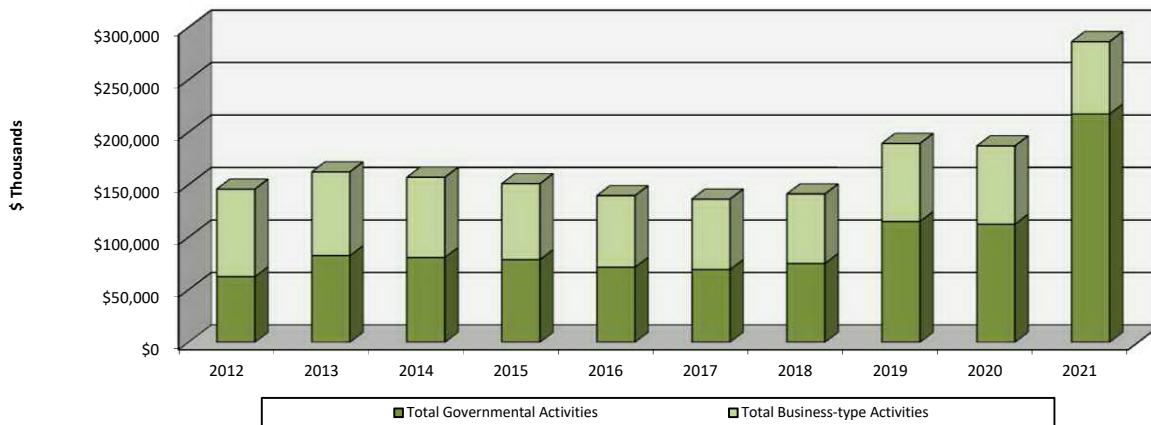
Notes: This schedule is provided as required by the Continuing Disclosure Agreement for the City's 2010 and 2013A General Obligation Bonds and is not required by Governmental Accounting Standards Board (GASB). Therefore, ten years of comparison data is not presented.

<sup>1</sup>Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.

Source: California Municipal Statistics, Inc.



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



	Fiscal Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Governmental Activities</b>										
Certificates of Participation	\$ 1,685	\$ 1,560	\$ 1,430	\$ 1,285	\$ 1,135	\$ 975	\$ 8,970	\$ 46,305	\$ 45,750	\$ 146,440
General Obligation Bonds	54,540	74,235	73,215	71,795	65,210	63,710	62,140	60,500	58,775	56,995
2011 Lease-Purchase Agreement	2,764	2,400	2,026	1,643	1,248	842	426	-	-	-
Add: unamortized premium	3,514	4,400	4,242	4,084	3,926	3,768	3,610	8,331	7,980	14,099
<b>Total Governmental Activities</b>	<b>62,503</b>	<b>82,595</b>	<b>80,913</b>	<b>78,807</b>	<b>71,519</b>	<b>69,295</b>	<b>75,146</b>	<b>115,136</b>	<b>112,505</b>	<b>217,534</b>
<b>Business-type Activities</b>										
Utility Revenue Bonds	65,879	63,104	60,224	57,224	54,095	50,825	47,400	43,815	40,060	36,130
Energy Tax Credits	1,000	900	800	700	600	500	400	300	200	100
State Water Resources Loan	15,900	15,109	14,309	13,500	12,681	15,034	17,711	29,589	33,808	32,288
Add: unamortized premium (discount), net	580	543	867	803	737	673	608	544	468	392
<b>Total Business-type Activities</b>	<b>83,359</b>	<b>79,656</b>	<b>76,200</b>	<b>72,227</b>	<b>68,113</b>	<b>67,032</b>	<b>66,119</b>	<b>74,248</b>	<b>74,536</b>	<b>68,910</b>
<b>Total Primary Government Outstanding Debt</b>	<b>\$ 145,862</b>	<b>\$ 162,251</b>	<b>\$ 157,113</b>	<b>\$ 151,034</b>	<b>\$ 139,632</b>	<b>\$ 136,327</b>	<b>\$ 141,265</b>	<b>\$ 189,384</b>	<b>\$ 187,041</b>	<b>\$ 286,444</b>
Percentage of Personal Income <sup>1</sup>	3.36%	3.36%	3.24%	2.94%	2.42%	2.22%	2.13%	2.64%	2.48%	3.81%
Population	65,544	66,368	66,861	66,029	66,968	66,478	66,649	67,082	67,019	66,573
Debt Per Capita	\$ 2.23	\$ 2.44	\$ 2.35	\$ 2.29	\$ 2.09	\$ 2.05	\$ 2.12	\$ 2.82	\$ 2.79	\$ 4.30

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

Sources: County of Santa Clara (assessed valuation)  
 2020 Official City Data Set (population)  
 California Department of Transportation Long-Term Socio-Economic Forecasts (personal income)  
 Annual Financial Statements and Note 7 Long-Term Debt



**CITY OF PALO ALTO**  
**Computation of Direct and Overlapping Debt**  
**As of June 30, 2021**

**2020-2021 Assessed Value**

\$ 42,353,925,962

	<b>Total Debt</b>	<b>Percentage</b>	<b>Amount</b>
	<b>Outstanding</b>	<b>Applicable</b>	<b>Applicable</b>
		<b>to City of</b>	<b>to City of</b>
<b><u>Direct and Overlapping Tax and Assessment Debt</u></b>		<b>Palo Alto<sup>1</sup></b>	<b>Palo Alto</b>
Santa Clara County	\$ 812,685,000	7.69%	\$ 62,471,096
Foothill-DeAnza Community College District	707,932,142	21.92%	155,214,122
Palo Alto Unified School District	241,738,172	90.39%	218,499,882
Fremont Union High School District	617,160,088	0.01%	55,544
Los Gatos-Saratoga Joint Union High School District	86,585,000	0.01%	11,256
Mountain View-Los Altos Union High School District	207,011,101	0.85%	1,755,454
Cupertino Union School District	284,223,303	0.02%	48,318
Los Altos School District	164,070,000	1.13%	1,860,554
Mountain View-Whisman School District	279,115,000	0.61%	1,691,437
Saratoga Union School District	19,249,458	0.03%	5,775
Whisman School District	8,380,054	1.62%	135,505
City of Palo Alto	56,995,000	100%	56,995,000
El Camino Hospital District	116,290,000	0.07%	82,566
Midpeninsula Regional Open Space District	86,400,000	12.58%	10,872,576
City of Palo Alto Special Assessment Bonds	17,915,000	100%	17,915,000
Santa Clara Valley Water District Benefit Assessment District	57,010,000	7.69%	4,382,359
<b>Total Direct and Overlapping Tax and Assessment Debt</b>			<u>531,996,444</u>
<b><u>Direct and Overlapping General Fund Debt</u></b>			
Santa Clara County General Fund Obligations	914,957,860	7.69%	70,332,811
Santa Clara County Pension Obligations	341,399,194	7.69%	26,243,356
Santa Clara County Board of Education Certificates of Participation	2,670,000	7.69%	205,243
Foothill-DeAnza Community College District Certificates of Participation	22,085,000	21.92%	4,842,136
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	1,709,000	0.01%	222
Mountain View-Los Altos Union High School District Certificates of Participation	2,489,970	0.85%	21,115
Saratoga Union High School District Certificates of Participation	2,750,000	0.03%	825
Los Altos School District Certificates of Participation	1,954,070	1.13%	22,159
City of Palo Alto General Fund Obligations	146,440,000	100%	146,440,000
Santa Clara County Vector Control District Certificates of Participation	1,765,000	7.69%	135,676
Midpeninsula Regional Open Space Park District General Fund Obligation:	106,000,600	12.58%	13,339,116
<b>Total Gross Direct and Overlapping General Fund Debt</b>			\$ 261,582,659
Less: Santa Clara County supported obligations			1,943,066
<b>Total Net Direct and Overlapping General Fund Debt</b>			\$ 259,639,593
<b>Total Combined Debt</b>			<u>\$ 791,636,037</u>
	<b>Ratio to</b>		
	<b>Assessed Value</b>		
<b>Total Direct Debt</b>	0.51%		\$ 217,534,000 <sup>3</sup>
<b>Total Overlapping Debt</b>	1.39%		588,201,037
<b>Total Direct and Overlapping Debt</b>	1.90%		<u>\$ 805,735,037</u> <sup>2</sup>

Notes: <sup>1</sup>The 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.

<sup>2</sup>Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations

<sup>3</sup>Includes unamortized premium of \$14,099,000.

Source: California Municipal Statistics, Inc.



**CITY OF PALO ALTO**  
**Computation of Legal Bonded Debt Margin**  
**As of June 30, 2021**  
**(Amounts in thousands)**

**Assessed Valuation:**

Secured property assessed value,  
net of exempt real property \$ 42,353,926

**Bonded Debt Limit (3.75% of Assessed Value) <sup>1</sup>**

1,588,272

**Direct Debt:**

Certificates of Participation 146,440  
General Obligation bonds 56,995

**Total Direct Debt<sup>3</sup>** 203,435

**Less: Amount of Debt Not Subject to Limit <sup>2</sup>**

146,440

**Total Net Debt Applicable to Limit**

56,995

**Legal Bonded Debt Margin**

\$ 1,531,277

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
2012	22,486,708	843,252	54,540	788,712	65,544	6.47%	0.0024	0.83
2013	23,693,007	888,488	74,235	814,253	66,368	8.36%	0.0031	1.12
2014	25,536,058	957,602	73,215	884,387	66,861	7.65%	0.0029	1.10
2015	27,198,127	1,019,930	71,795	948,135	66,029	7.04%	0.0026	1.09
2016	29,415,754	1,103,091	65,210	1,037,881	66,968	5.91%	0.0022	0.97
2017	31,954,381	1,198,289	63,710	1,134,579	66,478	5.32%	0.0020	0.96
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

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

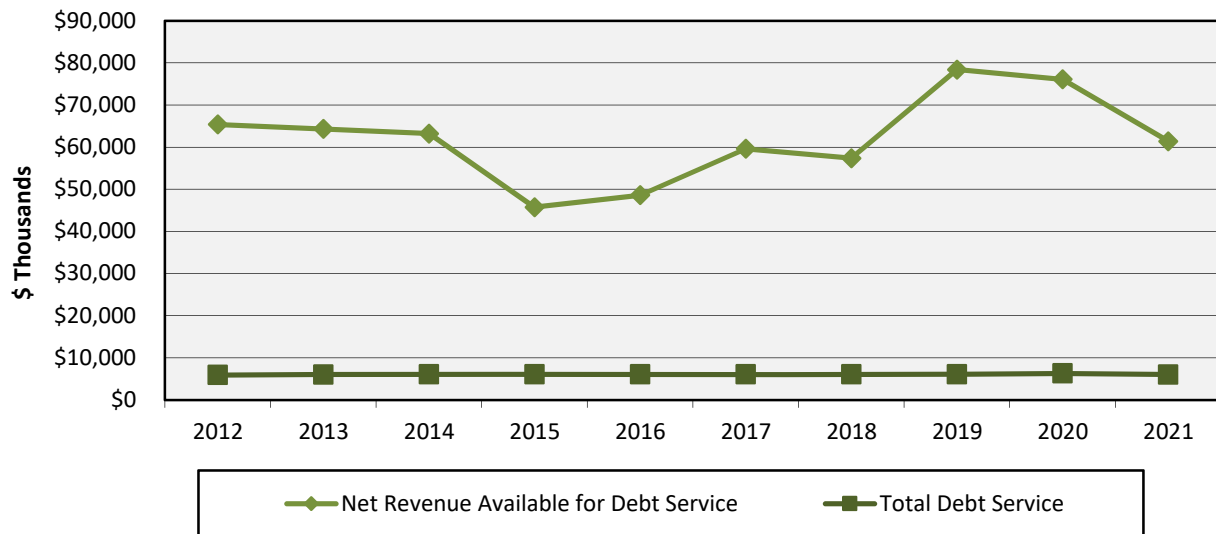
<sup>2</sup>In accordance with California Government Code Section 43605, only the City's General Obligation bonds are subject to the legal debt limit of 15%. Enterprise Fund debt is not subject to legal debt margin.

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

Source: Annual Financial Statements, Assessed Value of Taxable Property and Note 7 Long-Term Debt



**CITY OF PALO ALTO**  
**Revenue Bond Coverage**  
**Business-type Activities<sup>1</sup>**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**



Fiscal Year	Gross Revenue	Less: Direct Operating Expenses <sup>2</sup>	Net Revenue Available for Debt Service	Debt Service			Coverage Ratio
				Principal	Interest <sup>3</sup>	Total	
2012	235,160	169,777	65,383	2,945	2,959	5,904	11.07
2013	237,842	173,510	64,332	2,875	3,167	6,042	10.65
2014	239,948	176,718	63,230	2,980	3,073	6,053	10.45
2015	234,025	188,276	45,749	3,100	2,954	6,054	7.56
2016	235,386	186,793	48,593	3,230	2,823	6,053	8.03
2017	264,734	205,102	59,632	3,370	2,678	6,048	9.86
2018	288,610	231,255	57,355	3,525	2,524	6,049	9.48
2019	306,237	227,824	78,413	3,685	2,359	6,044	12.97
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

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

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

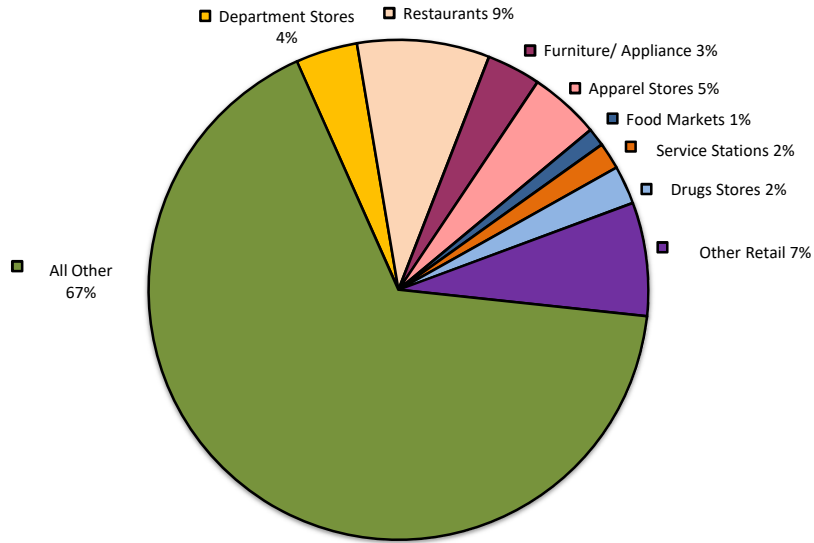
<sup>3</sup> Excludes joint venture debt service and federal interest subsidy.

Source: City of Palo Alto, Accounting Department



**CITY OF PALO ALTO**  
**Taxable Transactions by Type of Business**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**

**Fiscal Year 2021**



**ECONOMIC SEGMENT**

Fiscal Year	Department Stores	Restaurants	Furniture/ Appliance	Apparel Stores	Food Markets	Service Stations	Drug Stores	Other Retail	All Other	Total
2012	2,445	2,937	1,590	1,492	387	722	257	5,049	7,034	21,913
2013	2,478	3,160	1,465	1,656	424	765	259	4,056	13,729	27,992
2014	2,097	3,541	1,555	2,041	392	772	444	4,845	9,890	25,577
2015	2,398	3,894	1,672	1,708	435	699	265	3,674	11,253	25,998
2016	2,250	4,134	1,410	1,694	448	582	257	4,949	12,423	28,147
2017	2,036	4,079	1,513	1,794	542	502	259	3,810	14,325	28,860
2018	2,001	4,224	1,716	1,647	428	614	243	3,184	15,663	29,720
2019	1,934	4,299	1,795	1,994	409	706	810	2,245	22,254	36,446
2020 <sup>1</sup>	1,260	3,488	1,421	1,391	417	572	1,413	1,597	18,313	29,872
2021 <sup>1</sup>	1,125	2,410	980	1,283	332	489	700	2,062	18,744	28,125

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

**Sales Tax Rates for the Fiscal Year Ended June 30, 2021**

**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 Retail Transactions and Use Tax (SCCR)	0.125%
Silicon Valley Transportation Solutions Tax (SVTS)	0.50%

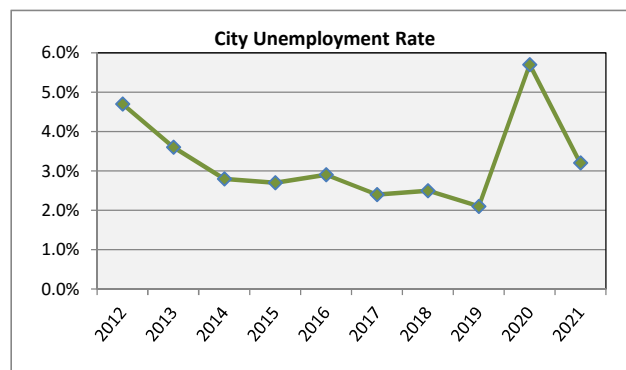
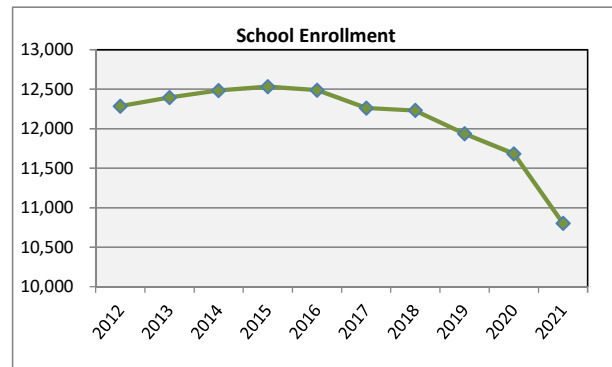
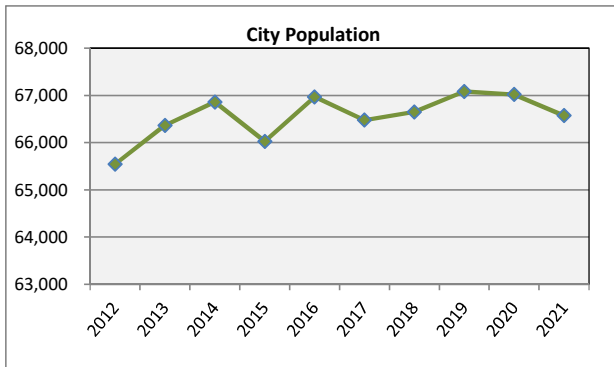
**Total Sales and Use Tax Rate:** 9.000%

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

Source: California State Board of Equalization



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



Fiscal Year	City of Palo Alto Population	City of Palo Alto Unemployment Rate	City of Palo Alto School Enrollment	Santa Clara County Population	City Population as a Percentage of County Population	Santa Clara County Total Personal Income (in thousands)	Santa Clara County Per Capita Personal Income
2012	65,544	4.7%	12,286	1,813,860	3.61%	120,100,000	66,212
2013	66,368	3.6%	12,396	1,840,218	3.61%	134,000,000	72,817
2014	66,861	2.8%	12,483	1,866,208	3.58%	135,200,000	72,446
2015	66,029	2.7%	12,532	1,890,929	3.49%	147,300,000	77,898
2016	66,968	2.9%	12,488	1,919,736	3.49%	165,300,000 *	86,106 *
2017	66,478	2.4%	12,261	1,933,839	3.44%	178,500,000 *	92,303 *
2018	66,649	2.5%	12,230	1,945,829	3.43%	193,700,000 *	99,546 *
2019	67,082	2.1%	11,938	1,955,946	3.43%	209,000,000 *	106,854 *
2020	67,019	5.7%	11,683	1,961,117	3.42%	220,400,000 *	112,385 *
2021	66,573	3.2%	10,801	1,967,525	3.38%	222,200,000	112,934

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**

<b>Employer</b>	<b>FY 2021<sup>1</sup></b>			<b>FY 2012</b>		
	<b>Number of Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment</b>	<b>Number of Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment</b>
Stanford Health Care <sup>2</sup>	5,500	1	4.1%	5,059	2	4.6%
Hewlett-Packard Company <sup>2</sup>	5,000	2	3.7%	2,201	5	2.0%
Stanford University <sup>2</sup>	4,060	3	3.0%	10,680	1	9.7%
Veteran's Affairs Palo Alto Health Care System	3,900	4	2.9%	3,500	4	3.2%
Stanford Children's Health/Lucile Packard Children's H	3,500	5	2.6%	4,750	3	4.3%
VMware Inc.	3,500	6	2.6%			
SAP Labs Inc.	3,500	7	2.6%			
Varian Medical Systems	3,300	8	2.5%			
Tesla Inc.	2,650	9	2.0%			
Palo Alto Medical Foundation <sup>2</sup>	2,200	10	1.6%	2,200	6	2.0%
Space Systems/Loral				1,870	7	1.7%
Wilson Sonsini Goodrich & Rosati				1,650	8	1.5%
Palo Alto Unified School District				1,362	9	1.2%
City of Palo Alto				1,017	10	0.9%
<b>Total</b>	<b>37,110</b>		<b>27.6%</b>	<b>34,289</b>		<b>31.2%</b>

**Estimated Total City Day Population:**

FY 2021	134,582
FY 2012	110,000

Notes: <sup>1</sup>Available data sources are limited and may be unreliable. The City does not affirm the validity of this data. 2021 numbers are rounded. Figures may include employees not located within City limits.  
<sup>2</sup>FY21 data was not available. Prior years data was used.

Source: 2020 Official City Data Set (total City day population); AtoZ databases; Stanford Comprehensive Plan Economic Impact Report, Stanford University Land Use Planning, "Stanford Facts 2021."



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

FUNCTIONS/PROGRAMS	Fiscal Year Ended June 30			
	2011	2012	2013	2014
<b><u>Governmental activities</u></b>				
<b>Community Services</b>				
Number of theater performances	175	175	184	108
Total hours of athletic field usage <sup>2</sup>	42,687	44,226	-	-
Number of rounds of golf	67,381	65,653	60,153	46,527
Enrollment in recreation classes (includes summer camps)	12,310	11,703	11,598	11,997
<b>Planning and Community Environment</b>				
Planning applications completed	238	204	307	310
Building permits issued	3,559	3,320	3,682	3,624
Caltrain average weekday boarding <sup>3</sup>	4,923	5,730	6,763	7,564
<b>Police</b>				
Calls for service	52,159	51,086	54,628	58,559
Total arrests	2,288	2,212	2,274	2,589
Parking citations issued	40,426	41,875	43,877	36,551
<b>Animal Services</b>				
Number of service calls	2,804	3,051	2,909	2,398
Number of animals handled	3,323	3,379	2,675	2,480
<b>Fire</b>				
Calls for service	7,555	7,796	7,904	7,829
Number of fire incidents	165	186	150	150
Number of fire inspections <sup>4</sup>	1,807	1,654	2,069	1,741
<b>Library</b>				
Total number of cardholders	53,246	60,283	51,007	46,950
Total number of items in collection	314,101	306,160	277,749	361,103
Total checkouts	1,476,648	1,559,932	1,512,975	1,364,872
<b>Public Works</b>				
Street resurfacing (lane miles)	29	40	36	36
Number of potholes repaired	2,986	3,047	2,726	3,418
Sq. ft. of sidewalk replaced or permanently repaired	71,174	72,787	82,118	74,051
Number of trees planted	150	143	245	148
Tons of materials recycled or composted	56,586	51,725	47,941	49,594
<b><u>Business-type activities</u></b>				
<b>Electric</b>				
Number of customer accounts	29,708	29,545	29,299	29,338
Residential MWH consumed	160,318	160,604	156,411	153,190
<b>Gas</b>				
Number of customer accounts	23,816	23,915	23,659	23,592
Residential therms consumed	11,476,609	11,522,999	10,834,793	10,253,776
<b>Water</b>				
Number of customer accounts	20,248	20,317	20,043	20,037
Residential water consumption (CCF)	2,442,415	2,513,595	2,521,930	2,496,549
<b>Wastewater collection</b>				
Number of customer accounts	22,320	22,421	22,152	22,105
Millions of gallons processed	8,652	8,130	7,546	7,186

Notes: <sup>1</sup>Ten most recent years available.

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

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

<sup>4</sup>The 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					
2015	2016	2017	2018	2019	2020
172	161	171	160	175	191
47,504	65,723	71,431	65,443	67,608	-
42,048	42,573	-	6,790	54,619	42,429
12,586	12,974	11,649	10,652	13,553	12,997
335	383	365	376	327	262
3,844	3,492	2,970	3,105	2,918	2,476
8,294	9,622	9,994	9,977	10,400	-
59,795	53,870	53,901	55,480	54,479	48,394
3,273	2,988	2,745	2,678	2,388	1,568
41,412	37,624	33,661	37,441	33,496	20,261
2,013	2,421	1,674	1,737	2,550	3,081
2,143	2,184	2,211	2,077	2,125	2,361
8,548	8,882	9,153	8,981	8,843	8,102
135	150	155	189	133	140
1,964	2,806	5,476	9,581	10,984	9,602
51,792	57,307	54,676	56,159	68,034	66,530
429,460	461,292	427,548	472,895	485,157	515,032
1,499,406	1,400,926	1,524,614	1,538,118	1,467,038	1,048,676
31	39	39	31	10	7
2,487	3,435	3,449	2,835	2,929	1,761
120,776	115,293	17,275	38,557	66,662	48,847
305	387	319	411	403	346
50,546	56,438	60,582	57,744	55,900	51,852
29,065	29,304	29,616	29,475	29,616	29,849
145,284	150,112	148,986	149,526	146,036	153,976
23,461	23,467	23,637	23,395	23,664	23,770
8,537,754	9,535,377	10,233,669	10,261,276	9,794,177	10,382,762
20,061	19,994	20,213	20,000	20,012	20,608
2,052,176	1,696,383	1,856,879	2,120,588	2,058,663	2,241,461
21,990	22,016	22,216	21,979	22,216	22,410
6,512	6,387	7,176	6,464	6,958	6,294



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

FUNCTION/PROGRAM	Fiscal Year Ended June 30				
	2012	2013	2014	2015	2016
<b>Public Safety</b>					
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
<b>Community Services</b>					
Acres - Downtown/Urban Parks <sup>2</sup>	157	157	157	157	-
Acres - Open Space <sup>2</sup>	3,744	3,744	3,744	3,752	-
Acres - Parks and Preserves <sup>2</sup>	-	-	-	-	3,921
Acres - Open Space <sup>2</sup>	-	-	-	-	4,489
Acres - Municipal Golf Course <sup>2</sup>	-	-	-	-	-
Parks and Preserves <sup>3</sup>	36	36	36	36	36
Golf Course (see above for acreage)	1	1	1	1	1
Tennis Courts	51	51	51	51	51
Athletic Center	4	4	4	4	4
Community Centers	4	4	4	4	4
Theaters	3	3	3	3	3
Cultural Center/Art Center	1	1	1	1	1
Junior Museum and Zoo	1	1	1	1	1
Swimming Pools	1	1	1	1	1
Nature Center	3	3	3	3	3
<b>Libraries</b>					
Libraries	5	5	5	5	5
<b>Public Works:</b>					
Number of Trees Maintained	31,890	31,923	31,757	31,652	31,699
<b>Electric Utility<sup>1</sup></b>					
Miles of Overhead Lines	223	222	223	223	222
Miles of Underground Lines	245	246	249	262	268
<b>Water Utility</b>					
Miles of Water Mains	234	233	236	236	235
<b>Gas Utility</b>					
Miles of Gas Mains	210	210	214	211	209
<b>Waste Water</b>					
Miles of Sanitary Sewer Lines	217	217	217	217	216

Note: <sup>1</sup>The 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.

<sup>2</sup>Beginning in 2016 park acreage is sourced from the Official City Data Set. The discrepancy between FY16 and FY17 is because FY16 numbers were derived off GIS parcels identified as parks or zoned in the Open Space Zoning District. For FY17, Council approved Parks Master Plan numbers were used.

<sup>3</sup>Williams 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.

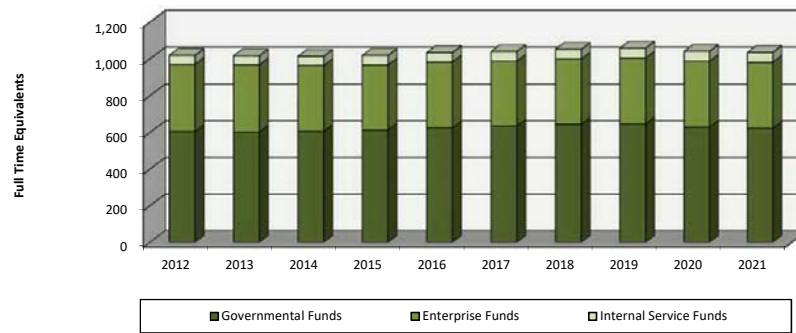
Source: City of Palo Alto



Fiscal Year Ended June 30				
2017	2018	2019	2020	2021
7	7	7	7	7
1	1	1	1	1
30	30	30	29	29
-	-	-	-	-
-	-	-	-	-
174	174	174	174	174
4,030	4,030	4,030	4,018	4,018
181	181	181	181	181
36	36	36	36	36
1	1	1	1	1
51	51	51	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
31,712	31,849	31,815	31,819	31,716
223	222	220	220	221
264	272	274	279	287
236	236	236	236	236
210	210	210	210	211
216	216	216	216	216



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



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

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Governmental Funds</b>										
General Fund:										
Administration	83	85	83	84	86	87	89	87	86	85
Community Services	74	74	74	76	77	78	79	78	76	75
Development Services <sup>5</sup>	-	-	-	38	38	36	36	36	-	-
Fire	122	119	116	107	107	109	109	98	98	98
Library	41	41	42	44	48	48	48	48	47	47
Office of Emergency Services <sup>4</sup>	-	-	3	3	3	3	3	3	3	3
Planning and Community Environment <sup>5</sup>	43	48	49	28	31	32	30	30	-	-
Planning and Development Services <sup>5</sup>	-	-	-	-	-	-	-	-	62	62
Office of Transportation <sup>6</sup>	-	-	-	-	-	-	-	-	6	6
Police	157	154	155	155	155	155	155	155	149	149
Public Works <sup>1</sup>	56	57	56	53	54	56	55	51	49	51
<b>Subtotal General Fund</b>	<b>576</b>	<b>578</b>	<b>578</b>	<b>588</b>	<b>599</b>	<b>604</b>	<b>604</b>	<b>586</b>	<b>576</b>	<b>576</b>
All Other Funds:										
Capital Projects Fund	24	26	27	27	28	31	34	33	36	36
Special Revenue Fund	2	2	9	10	9	10	9	10	11	11
<b>Total Governmental Funds</b>	<b>602</b>	<b>606</b>	<b>614</b>	<b>625</b>	<b>636</b>	<b>645</b>	<b>647</b>	<b>629</b>	<b>623</b>	<b>623</b>
<b>Enterprise Funds</b>										
Public Works <sup>2</sup>	115	104	99	100	95	99	101	101	101	101
Utilities <sup>3</sup>	251	254	255	258	256	255	257	257	257	257
<b>Total Enterprise Funds</b>	<b>366</b>	<b>358</b>	<b>354</b>	<b>358</b>	<b>351</b>	<b>354</b>	<b>358</b>	<b>358</b>	<b>358</b>	<b>358</b>
<b>Internal Service Funds</b>										
Printing and Mailing	2	2	2	2	2	2	2	2	2	2
Technology	30	31	32	32	34	35	36	36	36	36
Vehicle Replacement	16	17	17	17	17	16	16	16	16	16
<b>Total Internal Service Funds</b>	<b>48</b>	<b>50</b>	<b>51</b>	<b>51</b>	<b>53</b>	<b>53</b>	<b>54</b>	<b>54</b>	<b>54</b>	<b>54</b>
<b>Total</b>	<b>1,016</b>	<b>1,014</b>	<b>1,019</b>	<b>1,034</b>	<b>1,040</b>	<b>1,052</b>	<b>1,059</b>	<b>1,041</b>	<b>1,035</b>	<b>1,035</b>

Notes: <sup>1</sup>Fleet and Facilities Management

<sup>2</sup>Refuse, Storm Drainage, Wastewater Treatment

<sup>3</sup>Electric, Fiber Optics, Gas, Wastewater Collection, Water Fund

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

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

<sup>6</sup>In 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 2021 Adopted Operating Budget



## *Americans with Disabilities Act Statement*



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AMERICANS WITH DISABILITIES ACT (ADA) OF 1990,  
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For information contact:  
ADA Coordinator  
City of Palo Alto  
250 Hamilton Ave  
(650) 329-2550  
[ADA@cityofpaloalto.org](mailto:ADA@cityofpaloalto.org)





CITY OF  
**PALO  
ALTO**

# 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**

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**APPENDIX D**  
**CITY INVESTMENT POLICY**



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# CITY OF PALO ALTO

## Investment Policy

### Fiscal Year 2021-22

#### (Adopted June 21, 2021)

#### **INTRODUCTION**

The City of Palo Alto invests its pooled idle cash according to State of California law and the charter of the City of Palo Alto. In particular, the City follows “The Prudent Investor Standard” cited in the State Government Code (Section 53600.3). Under this standard, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

#### **INVESTMENT PHILOSOPHY**

The basic principles underlying Palo Alto's investment philosophy is to ensure the safety of public funds, provide that sufficient money is always available to meet current expenditures, and achieve a reasonable rate of return on its investments.

The City's preferred and chief practice is to buy securities and to hold them to their date of maturity rather than to trade or sell securities prior to maturity. The City may, however, elect to sell a security prior to its maturity should there be a significant financial need. If securities are purchased and held to their maturity date, then any changes in the market value of those securities during their life will have no effect on their principal value. Under a buy and hold philosophy, the City is able to protect its invested principal. The economy, the money markets, and various financial institutions (such as the Federal Reserve System) are monitored carefully to make prudent investments and to assess the condition of the City's portfolio.

#### **INVESTMENT OBJECTIVES**

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest



rate risk.

a) Credit risk is the risk that an obligation will not be paid and a loss will result. The City will seek to minimize this risk by:

- Limiting investment to the safest types of securities or minimum credit quality rating as listed in the “Authorized Investment” section
- Diversifying its investments among the types of securities that are authorized under this investment policy

b) Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investor’s portfolio. For example, an investor with large holdings in long-term bonds has assumed significant interest rate risk because the value of the bonds will fall if interest rates rise. The City can minimize this risk by:

- Buying and holding its securities until maturity
- Structuring the investment portfolio so that securities mature to meet cash flow requirements

To further achieve the objective of safety, the amount that can be invested in all investment categories, excluding obligations of the U.S. Government and its agencies, is limited either as a percentage of the portfolio or by a specific dollar amount. These limits are defined under the “Authorized Investments” section.

2. **Liquidity:** Liquidity is the second most important objective of the investment program. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by maintaining a portion of the portfolio in liquid money market mutual funds or local government investment pools. In addition, the City will maintain one month’s net cash needs in short term and/or liquid investments and at least \$50 million shall be maintained in securities maturing in less than two years. Although the City’s practice is to buy and hold securities to maturity, since all possible cash demands cannot be anticipated, the portfolio will consist of securities with active secondary or resale markets should the need to sell a security prior to maturity arises.
3. **Yield:** Yield on the City’s portfolio is last in priority among investment objectives. The investment portfolio shall be designed to obtain a market rate of return that reflects the authorized investments, risk constraints, and liquidity needs outlined in the City’s investment policy. Compared to similar sized cities, the City of Palo Alto should be able to take advantage of its relatively large reserve balances to achieve higher yields through long-term investments. In addition, the City will strive to maintain the level of investment of idle funds as close to 100 percent as possible.

## **ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RESPONSIBILITIES**

In addition to and subordinate to the Safety, Liquidity, and Yield investment objectives,



investments that support sound environmental, social and governance (ESG) objectives are also considered. While the City's portfolio is not classified as an ESG portfolio, investments in entities that support community well-being through practices that emphasize safe and environmentally sound objectives; fair labor practices; and equality of rights regardless of sex, race, age, disability, or sexual orientation, is encouraged. Direct investments in entities that manufacture tobacco products, firearms, and engage in direct production or drilling of fossil fuels is discouraged.

This section applies to new investments (after November 5, 2018) only and does not require divestment of existing investments. Investments in Certificates of Deposit (CDs) and Negotiable Certificates of Deposit are exempt from the ESG investing objective.

### **SCOPE**

- A. This investment policy shall apply to all financial assets of the City of Palo Alto as accounted for in the Annual Comprehensive Financial Report (ACFR), including but not limited to the following funds:
  1. General Fund
  2. Special Revenue Funds
  3. Debt Service Funds
  4. Capital Project Fund
  5. Enterprise Funds
  6. Internal Service Funds
  7. Trust and Agency Funds
- B. The policy does not cover funds held by the California Public Employees Retirement System (CalPERS), the California Employers' Retiree Benefit Trust (CERBT), Deferred Compensation programs (e.g. ICMA, Hartford), the Authority for California Cities Excess Liability (ACCEL), and the Public Agency Retirement Services (PARS) Section 115 Irrevocable Trust.
- C. Investments of bond proceeds shall be governed by the provisions of the related bond indentures.

### **GENERAL INVESTMENT GUIDELINES**

1. The maximum stated final maturity of individual securities in the portfolio should be ten years.
2. A maximum of 30 percent of the par value of the portfolio shall be invested in securities with maturities beyond five years.
3. The City shall maintain a minimum of one month's net cash needs in short term and/or liquid investments.
4. At least \$50 million shall be maintained in securities maturing in less than two (2)



years.

5. Should the ratio of the market value of the portfolio to the book value of the portfolio fall below 95 percent, the Administrative Services Department will report this fact to the City Council within a reasonable time frame and evaluate whether there is any risk of holding any of the securities to maturity.
6. Commitments to purchase securities newly introduced on the market shall be made no more than three (3) working days before pricing.
7. Whenever possible, the City will obtain three or more quotations on the purchase or sale of comparable securities and take the higher yield on purchase or higher price on sale. This rule will not apply to new issues, which are purchased at market no more than three (3) working days before pricing, as well as to LAIF, City of Palo Alto bonds, money market accounts and mutual funds, all of which shall be evaluated separately.
8. Where the Investment Policy specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. A later increase or decrease in a percentage resulting from a change in the portfolio's assets or values shall not constitute a violation of that restriction. As soon as possible, percentage limitations will be restored as investments mature in each category.

### **AUTHORIZED INVESTMENTS**

The California Government Code (Sections 53600 et seq.) governs investment of City funds. The following investments are authorized:

1. **U.S. Government Securities** (e.g. Treasury notes, bonds and bills) Securities that are backed by the full faith and credit of the United States
  - a) There is no limit on purchase of these securities.
  - b) Securities will not exceed 10 years maturity.
  - c) All purchased securities must have an explicit or a de facto backing of the full faith and credit of the U.S. Government.
2. **U.S. Government Agency Securities** – Obligations issued by the Federal Government agencies (e.g. Federal National Mortgage Association, etc.).
  - a. There is no limit on purchase of these securities except for:
    - Callable and Multi-step-up securities provided that:
      - The potential call dates are known at the time of purchase
      - The interest rates at which they “step-up” are known at the time



of purchase

- The entire face value of the security is redeemed at the call date
- No more than 25 percent of the par value of the portfolio

b. Securities will not exceed 10 years maturity.

3. **California State, California Local Government Agencies, and other United States State Bonds**

- a) Having at time of investment a minimum Double A (AA/Aa2) rating as provided by a nationally recognized rating service (e.g. Moody's, Fitch, and/or Standard and Poor's).
- b) May not exceed 40 percent of the par value of the portfolio.
- c) Investments include:
  - i) Registered state warrants or treasury notes or bonds of the State of California and bonds, notes, warrants, or other evidences of indebtedness of any local agency within California, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the state or local agency or by a department, board, agency, or authority of the state or local agency.
  - ii) Registered treasury notes or bond of any of the 49 United States in addition to the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency or authority of any of the other 49 United States, in addition to the State of California.

4. **Certificates of Deposit (CD)** - A debt instrument issued by a bank for a specified period of time at a specified rate of interest. Purchase of CD's are limited to:

- a) May not exceed 20 percent of the par value of the portfolio.
- b) No more than 10 percent of the par value of the portfolio in collateralized CDs in any institution.
- c) Purchase collateralized deposits only from federally insured large banks that are rated by a nationally recognized rating service (e.g. Moody's, Fitch, and/or Standard and Poor's).
- d) For non-rated banks, deposit should be limited to amounts federally insured (FDIC). – See Appendix C



- e) Rollovers are not permitted without specific instruction from authorized City staff.
- 5. **Banker's Acceptance Notes (BA)** – Bills of exchange or time drafts drawn on and accepted by commercial banks. Purchase of banker's acceptances are limited to:
  - a) No more than 30 percent of the par value of the portfolio.
  - b) Not to exceed 180 days maturity.
  - c) No more than \$5 million with any one institution.
- 6. **Commercial Paper** - Short-term unsecured obligations issued by banks, corporations, and other borrowers. Purchases of commercial paper are limited to:
  - a) Having highest letter or numerical rating as provided for by a nationally recognized rating service (e.g. Moody's, Fitch, and/or Standard and Poor's).
  - b) No more than 15 percent of the par value of the portfolio.
  - c) Not to exceed 270 days maturity.
  - d) No more than \$3 million or 10 percent of the outstanding commercial paper of any one institution, whichever is lesser.
- 7. **Local Agency Investment Fund (LAIF)** – A State of California managed investment pool may be used up to the maximum permitted by California State Law.
- 8. **Short-Term Repurchase Agreements (REPO)** – A contractual agreement between a seller and a buyer, usually of U.S. government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and, usually, at a stated time. Purchases of REPO's must:
  - a) Not to exceed 1 year.
  - b) Market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities.
  - c) A Master Repurchase agreement must be signed with the bank or dealer.
- 9. **Money Market Deposit Accounts** – Liquid bank accounts which seek to maintain a net asset value of \$1.00.



10. **Mutual Funds** which seek to maintain a net asset value of \$1.00 and which are limited essentially to the above investments and further defined in note 9 of Appendix A
  - a) No more than 20 percent of the par value of the portfolio.
  - b) No more than 10 percent of the par value with any one institution.
11. **Negotiable Certificates of Deposit (NCD)** issued by nationally or state-chartered banks and state or federal savings institutions and further defined in note 11 of Appendix A. Purchases of negotiable certificates of deposit:
  - a) May not exceed 20 percent of the par value of the portfolio.
  - b) No more than \$5 million in any one institution.
12. **Medium-Term Corporate Notes** – Issued by corporation organized and operating within the United States or by depository institutions licensed by the United States or any state and operating with the United States.
  - a) Not to exceed 5 years maturity.
  - b) Securities eligible for investment shall have a minimum rating of AA or Aa2 from a nationally recognized rating service (e.g. Moody's, Fitch, and/or Standard & Poor's).
  - c) No more than 10 percent of the par value of the portfolio.
  - d) No more than \$5 million of the par value may be invested in securities of any single issuer, other than the U.S. Government, its agencies and instrumentality.
  - e) If securities owned by the City are downgraded by Moody's, Fitch, or Standard & Poors to a level below AA or Aa2, it shall be the City's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.
13. **Supranational Organizations Securities** – Supranational organizations refer to International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and Inter-American Development Bank (IADB).
  - a. Securities will not exceed 5 years maturity.
  - b. No more than 20 percent of the par value of the portfolio.
  - c. No more than 10 percent of the par value with any one institution.
  - d. Securities eligible for investment shall have a minimum rating of AA or Aa2 from a nationally recognized rating service (e.g. Moody's, Fitch, and/or Standard & Poor's).



- e. Limited to United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by IBRD, IFC, and IADB.

Appendix A provides a more detailed description of each investment vehicle and its security and liquidity features. Most of the City's short-term investments will be in securities which pay principal upon maturity, while long-term investments may be in securities that periodically repay principal, as well as interest. Most of the City's investments will be at a fixed rate. However, some of the investments may be at a variable rate, so long as that rate changes on specified dates in pre-determined increments.

### **PROHIBITED INVESTMENTS:**

Includes all investments not specified above, and in particular:

1. Reverse repurchase agreements
2. Derivatives, as defined in Appendix B

Appendix B provides a more detailed description of each investment, which is prohibited, for City investment.

### **AUTHORIZED INVESTMENT PERSONNEL**

Idle cash management and investment transactions are the responsibility of the Administrative Services Department. The Administrative Services Department is under the control of the Director of Administrative Services (Director), as treasurer, who is subject to the direction and supervision of the City Manager.

The Assistant Directors of Administrative Services (Assistant Director), who reports to the Director, are authorized to make all investment transactions allowed by the Statement of Investment Policy. The Assistant Director may authorize the Manager of Treasury, Debt & Investments and/or Senior Management Analyst (Manager and/or Analyst) to enter into investments within clearly specified parameters.

The Investment function is under the supervision of the Assistant Director. The Assistant Director is charged with the responsibility to manage the investment program (portfolio), which includes developing and monitoring the City's cash flow model and developing long-term revenue and financing strategies and forecasts.

The Manager and/or Analyst are subject to the direction and supervision of the Assistant Director. The Manager and/or Analyst assist the Assistant Director, in the purchase and sale of securities. The Manager and/or Analyst also prepare the quarterly report, and record daily all investment transactions as to the type of investment, amount, yield, and maturity. Cash flow projections are prepared as needed.

In all circumstances, approval from the Director of Administrative Services is required before selling



securities from the City's portfolio. The Manager and/or Analyst may also transfer no more than a total of \$10 million a day from the City's general account to any one financial institution, without the prior approval of the Assistant Director.

No other person has authority to make investment transactions without the written authority of the Director or Assistant Director of Administrative Services.

### **USE OF BROKERS AND DEALERS**

The Administrative Services Department maintains a list of acceptable dealers. A dealer acts as a principal in security transactions, selling securities from and buying securities for their own position. A dealer must have:

- a) At least three years experience operating with California municipalities;
- b) Maintain an inventory of trading securities of at least \$10 million; and
- c) Be approved by the Assistant Director before being added to the City's list of approved dealers; including individual traders or agents representing a dealer:

A dealer will be removed from the list should there develop a history of problems to include: failure to deliver securities as promised, failure to honor transactions as quoted, or failure to provide accurate information.

### **SAFEKEEPING AND CUSTODY**

All securities shall be delivered to the City's safekeeping custodian and held in the name of the City of Palo Alto, with the exception of the following investments:

- a) Certificates of deposit, which may be held by the City itself.
- b) City shares in pooled investment funds, under contract.
- c) Mutual funds
- d) Local Agency Investment Fund (LAIF)



## **POLICY REVIEW AND REPORTING ON INVESTMENTS**

Monthly, the Administrative Services Department will review performance in relation to Council adopted Policy. Quarterly, the Department will report to Council investment activity, including: the portfolio's performance in comparison to policy, explain any variances from policy, provide any recommendations for policy changes, and discuss overall compliance with the City's Investment Policy. In addition, the Department will provide Council with:

- a) A detailed list of all securities, investments and monies held by the City, and
- b) Report on the City's ability to meet expenditure requirements over the next six months.

Annually, the Administrative Services Department will present a Proposed Statement of Investment Policy, to include the delegation of investment authority, to the City Council for review during the annual budget process. All proposed changes in policy must be approved by the Council prior to implementation.

Adopted by City Council October 22, 1984	Amended by City Council June 11, 2001
Monthly reporting effective January 1985	Amended by City Council June 17, 2002
Amended and Adopted by City Council June 24, 1985	Amended by City Council June 17, 2003
Amended by City Council December 2, 1985	Amended by City Council June 28, 2004
Amended by City Council June 23, 1986	Amended by City Council June 20, 2005
Amended by City Council June 22, 1987	Amended by City Council June 12, 2006
Amended by City Council August 8, 1988	Amended by City Council June 11, 2007
Amended by City Council November 28, 1988	Amended by City Council June 09, 2008
Amended by City Council June 26, 1989	Amended by City Council June 15, 2009
Amended by City Council May 14, 1990	Amended by City Council June 28, 2010
Amended by City Council June 24, 1991	Amended by City Council June 20, 2011
Amended by City Council June 22, 1992	Amended by City Council June 18, 2012
Amended by City Council June 23, 1993	Amended by City Council June 03, 2013
Amended by City Council June 20, 1994	Amended by City Council June 16, 2014
Amended by City Council June 19, 1995	Amended by City Council June 15, 2015
Amended by City Council June 24, 1996	Amended by City Council June 13, 2016
Amended by City Council June 23, 1997	Amended by City Council June 27, 2017
Amended by City Council January 26, 1998	Amended by City Council November 5, 2018
Amended by City Council June 22, 1998	Amended by City Council June 24, 2019
Amended by City Council June 28, 1999	Adopted by City Council June 22, 2020
Amended by City Council June 19, 2000	Amended by City Council June 21, 2021



## APPENDIX A

### EXPLANATION OF PERMITTED INVESTMENTS

1. **U.S. Government Securities:** United States Treasury notes, bonds, bills, or certificates of indebtedness or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
  
2. **U.S. Government Agency Securities:** U.S. Government Agency Obligations include the securities of the Federal National Mortgage Association (FNMA), Federal Land Banks (FLB), Federal Intermediate Credit Banks (FICB), banks for cooperatives, Federal Home Loan Banks (FHLB), Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), Student Loan Marketing Association (SLMA), Small Business Administration (SBA), Federal Farm Credit (FFC), and Federal Agricultural Mortgage Corporation (FAMC or FMAC). Federal Agency securities are debt obligations that essentially result from lending programs of the Government. Federal agency securities differ from other types of securities, as well as among themselves. Their characteristics depend on the issuing agency. It is possible to distinguish three types of issues: (A) participation certificates (pooled securities), (B) Certificates of interest (pooled loans), (C) notes, bonds, and debentures. The securities of a few agencies are explicitly backed by the full faith and credit of the U.S. Government. All other issues purchased by the City have the de facto backing from the federal government, and it is highly unlikely that the government would let any agency default on its obligations.
  
3. **Certificates of Deposit:** A certificate of deposit (CDs) is a receipt for funds deposited in a bank, savings bank, or savings and loan association for a specified period of time at a specified rate of interest. Denominations are \$250,000 and up. The first \$250,000 of a certificate of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC), if the deposit is with a bank or savings bank, or the Savings Association Insurance Fund (SAIF), if the deposit is with a savings and loan. CDs with a face value in excess of \$250,000 can be collateralized by U.S. Government Agency and Treasury Department securities or first mortgage loans. Government securities must be at least 110 percent of the face value of the CD collateralized in excess of the first \$250,000. The value of first mortgages must be at least 150 percent of the face value of the CD balance insured in excess of the first \$250,000. Generally, CDs are issued for more than 30 days and the maturity can be selected by the purchaser.
  
4. **Bankers' Acceptance:** A Banker's Acceptance (BA) is a negotiable time draft or bill of exchange drawn on and accepted by a commercial bank. Acceptance of the draft irrevocably obligates the bank to pay the bearer the face amount of the draft at maturity. BAs are usually created to finance the import and export of goods, the shipment of goods within the United States and storage of readily marketable staple commodities. In over 70 years of usage in the United States, there has been no known instance of principal loss to any investor in BAs. In addition to the guarantee by the accepting bank, the transaction is identified with a specific commodity. Warehouse receipts verify that the pledged commodities exist, and, by definition, these commodities are readily marketable. The sale of the underlying goods generates the necessary funds to liquidate the indebtedness.



BAs enjoy marketability since the Federal Reserve Bank is authorized to buy and sell prime BAs with maturities of up to nine months. The Federal Reserve Bank enters into repurchase agreements in the normal course of open market operations with BA dealers.

As are sold at a discount from par. An acceptance is tied to a specific loan transaction; therefore, the amount and maturity of the acceptance is fixed.

5. **Commercial Paper:** Commercial paper notes are unsecured promissory notes of industrial corporations, utilities, and bank holding companies. Interest is discounted from par and calculated using actual number of days on a 360-day year. The notes are in bearer form, with maturities up to 270 days selected by the purchaser, and denominations generally start at \$100,000. There is a small secondary market for commercial paper notes and an investor may sell a note prior to maturity.

Commercial paper notes are backed by unused lines of credit from major banks. Some issuer's notes are insured, while some are backed by irrevocable letters of credit from major banks. State law limits a City to investments in United States corporations having assets in excess of five hundred million dollars with an "A" or higher rating by a nationally recognized rating service for the issuer's debentures. Cities may not invest more than 25 percent of idle cash in commercial paper.

6. **Local Agency Investment Fund Demand Deposit:** The Local Agency Investment Fund (LAIF) was established by the State to enable treasurers to place funds in a pool for investments. The City is limited to an investment of the amount allowed by LAIF (currently \$75 million). LAIF has been particularly beneficial to those jurisdictions with small portfolios. Palo Alto uses this fund for short-term investment, liquidity, and yield.
7. **Repurchase Agreements:** A Repurchase Agreement (REPOS) is not a security, but a contractual arrangement between a financial institution or dealer and an investor. The agreement normally can run for one or more days. The investor puts up funds for a certain number of days at a stated yield. In return, the investor takes title to a given block of securities as collateral. At maturity, the securities are repurchased and the funds repaid, plus interest. Usually, amounts are \$500,000 or more, but some REPOS can be smaller.
8. **Money Market Deposit Accounts:** Money Market Deposit Accounts are market-sensitive bank accounts, which are available to depositors at any time, without penalty. The interest rate is generally comparable to rates on money market mutual funds, though any individual bank's rate may be higher or lower. These accounts are insured by the Federal Deposit Insurance Corporation or the Savings Association Insurance Fund.



9. **Mutual Funds:** Mutual funds are shares of beneficial interest issued by diversified management companies, as defined by Section 23701 M of the Revenue and Taxation Code. To be eligible for investment, these funds must:
- a) Attain the highest ranking in the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services; or
  - b) Have an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations, as authorized by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code, and with assets under management in excess of five hundred million dollars; and
  - c) Invest solely in those securities and obligations authorized by Sections 53601 and 53635 of the California Government Code. Where the Investment Policy of the City of Palo Alto may be more restrictive than the State Code, the Policy authorizes investments in mutual funds that shall have minimal investment in securities otherwise restricted by the City's Policy. Minimal investment is defined as less than 5 percent of the mutual fund portfolio; and
  - d) The purchase price of shares of beneficial interest purchased shall not include any commission that these companies may charge.
  - e) Have a net asset value of \$1.00.
10. **Callable Securities and Multi-Step-ups:** Callable securities are defined as fixed interest rate government agency securities that give the issuing agency the option of returning the invested funds at a specific point in time to the purchaser. Multi-step-ups are government agency securities in which the interest rate increases ("steps-up") at preset intervals, and which also have a callable option that allows the issuing agency to return the invested funds at a preset interval. Callable and multi-step-ups are permitted, provided that:
- the potential call dates are known at the time of purchase;
  - the interest rates at which they "step-up" are known at the time of purchase; and
  - the entire face value of the security is redeemed at the call date.



11. **Negotiable Certificates of Deposit (NCD):** NCDs are large-dollar-amount, short-term certificate of deposit. Such certificates are issued by large banks and bought mainly by corporations and institutional investors. They are payable either to the bearer or to the order of the depositor, and, being negotiable, they enjoy an active secondary market, where they trade in round lots of \$5 million. Although they can be issued in any denomination from \$100,000 up, the typical amount is \$1 million also called a Jumbo Certificate of Deposit.

State law prohibits the investment of local agency funds in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or any person with investment decision making authority in the administrative, manager's, budget, auditor-controller's, or treasurer's offices of the local agency also serves on the board of directors, other credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificate of deposit.

12. **Medium-Term Corporate Notes:** All corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. According to California Government Code Section 53601, "Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. Purchase of medium-term notes shall include other instruments authorized by this section and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section."
13. **Supranational Securities:** California Government Code Section 53601 defines allowable supranational securities as United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the International Finance Corporation, and Inter-American Development Bank. Supranationals are well capitalized and in most cases have strong credit support from contingent capital calls from their member countries. Section 53601 was amended effective January 1, 2015 to allow local agencies to invest in the senior debt obligations of these three supranational issuers which are eligible for purchase and resale within the United States. These entities were established with the purpose of ending poverty and raising the standard of living around the world through sustainable economic growth.

- a) The supranationals are international organization owned by member countries. These are:

- **International Bank for Reconstruction and Development (IBRD or World Bank)**, a member of the World Bank Group, provides direct loans and guarantees to sovereigns and government-backed projects
- **International Finance Corporation (IFC)**, a member of the World Bank Group, supports the creation and growth of private companies through direct lending and equity investment, attracting third party capital, and providing advisory services
- **Inter-American Development Bank (IADB)**, a member of the



Inter-American Development Bank Group, provides loans, grants, and guarantees to sovereigns in Latin America and the Caribbean

- b) Additional characteristics shared by the IBRD, IFC, and IADB include:
- Headquartered in Washington, D.C. with the United States as the largest shareholder of each organization
  - Rated AAA/Aaa by S&P and Moody's



## APPENDIX B

### EXPLANATION OF PROHIBITED INVESTMENTS

1. **Reverse Repurchase Agreements:** A Reverse Repurchase Agreement (Reverse REPO) is a contractual agreement by the investor (e.g. local agency) to post a security it owns as collateral, and a bank or dealer temporarily exchanges cash for this collateral, for a specific period of time, at an agreed-upon interest rate. During the period of the agreement, the local agency may use this cash for any purpose. At maturity, the securities are repurchased from the bank or dealer, plus interest.

California law contains a number of restrictions on the use of Reverse REPOS by local agencies.

2. **Derivatives:** A derivative is a financial instrument created from, or whose value depends on (is derived from), the value of one or more underlying assets or indices. The term "derivative" refers to instruments or features, such as collateralized mortgage obligations, forwards, futures, currency and interest rate swaps, options, caps and floors. Except for those callable and multi-step-up securities as described under Permitted Investments, derivatives are prohibited.

Certain derivative products have characteristics which could include high price volatility, liquid markets, products that are not market-tested, products that are highly leveraged, products requiring a high degree of sophistication to manage, and products that are difficult to value.

According to California law, a local agency shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages.



## APPENDIX C

### GLOSSARY OF INVESTMENT TERMS

**AGENCIES:** Federal agency and instrumentality securities.

**ASKED:** The price at which securities are offered.

**BID:** The price offered by a buyer of securities (when one sells securities, one asks for a bid). See “*Offer*”.

**BROKER:** A person or institution that conducts investment transactions on behalf of the buyer and seller of the investment and earns a commission on the transaction.

**COLLATERAL:** Securities, evidence of deposit, or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR):** The official annual report for the City of Palo Alto. It includes combined financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles and pronouncements set forth by the Governmental Accounting Standards Board (GASB). The ACFR also includes supporting schedules that are necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed statistical section.

**COUPON:** The annual rate of interest that a bond’s issuer promises to pay the bondholder on the bond’s face value or the certificate attached to a bond evidencing interest due on a payment date.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

**DEBENTURE:** A bond secured only by the general credit of the issuer.

**DELIVERY VERSUS PAYMENT:** There are two methods of delivery of securities: (1) delivery versus payment (DVP); and (2) delivery versus receipt (DVR). DVP is delivery of securities with an exchange of money for the securities. DVR is delivery of securities with an exchange of a signed receipt for the securities.

**DISCOUNT:** The difference between the acquisition cost of a security and its value at maturity when quoted at lower than face value. A security that sells below original offering price shortly after sale, is also is considered to be at a discount.

**DISCOUNT SECURITIES:** Non-interest-bearing money market instruments that are issued a discount and that are redeemed at maturity for full face value (e.g., U.S. Treasury Bills).



**DIVERSIFICATION:** Dividing investment funds among a variety of securities that offer independent returns.

**FEDERAL AGRICULTURAL MORTGAGE CORPORATION (“FAMC” or “FMAC”):** A federal agency established in 1988 to provide a secondary market for farm mortgage loans. Informally called *Farmer Mac*.

**FEDERAL CREDIT AGENCIES:** Agencies of the Federal Government that were established to supply credit to various classes of institutions and individuals (e.g., S&Ls, small business firms, students, farmers, farm cooperatives, and exporters).

**FEDERAL DEPOSIT INSURANCE CORPORATION (“FDIC”):** A federal agency that insures all types of deposits received at an insured bank, including deposits in a checking account, negotiable order of withdrawal (NOW) account, savings account, money market deposit account (MMDA) or time deposit such as a certificate of deposit (CD). FDIC insurance covers depositors' accounts at each insured bank, dollar-for-dollar, including principal and any accrued interest through the date of the insured bank's closing, up to the insurance limit.

The FDIC does not insure money invested in stocks, bonds, mutual funds, life insurance policies, annuities or municipal securities, even if these investments are purchased at an insured bank. The FDIC does not insure U.S. Treasury bills, bonds or notes, but these investments are backed by the full faith and credit of the United States government.

The standard maximum deposit insurance amount is described as the “SMDIA” in FDIC regulations. The SMDIA is \$250,000 per depositor, per insured bank.

**FEDERAL FUNDS RATE:** The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL HOME LOAN BANKS (“FHLB”):** Government-sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions, and insurance companies. The mission of the FHLBs is to liquefy the housing-related assets of its members, who must purchase stock in their District Bank.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (“FNMA”):** FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**FEDERAL OPEN MARKET COMMITTEE (“FOMC”):** The FOMC consists of seven



members of the Federal Reserve Board and five of the 12 Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of government securities in the open market, as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., 12 regional banks, and about 5,700 commercial banks that are members of the system.

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (“GNMA” or “Ginnie Mae”):** Securities that influence the volume of bank credit that is guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. A security holder is protected by the full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FMHM mortgages. The term “pass-throughs” is often used to describe Ginnie Maes.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow, and reasonable amount can be done at those quotes.

**LOCAL GOVERNMENT AGENCY:** A local government agency is any city, county, city and county, district, or other local governmental body or corporation, including the California State Universities (CSU) and University of California (UC) systems, K-12 schools and community colleges empowered to expend public funds.

**LOCAL GOVERNMENT INVESTMENT FUND (“LAIF”):** Monies from local governmental units may be remitted to the California State Treasurer for deposit in this special fund for the purpose of investment.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establish each party’s rights in the transactions. A master agreement will often specify, among other things, the right of the buyer (lender) to liquidate the underlying securities in the event of default by the seller (borrower).

**MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.

**MONEY MARKET:** The market in which short-term debt instruments (e.g., bills, commercial paper, and bankers’ acceptances) are issued and traded.

**OFFER:** The price asked by a seller of securities (when one buys securities, one asks for an offer). See “*Asked*” and “*Bid*”.



**OPEN MARKET OPERATIONS:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank, as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**PORTFOLIO:** A collection of securities that an investor holds.

**PRIMARY DEALER:** A group of government securities dealers that submit daily reports of market activity and positions, and monthly financial statements to the Federal Reserve Bank of New York, and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) -- registered securities broker-dealers, banks, and a few unregulated firms.

**PRUDENT INVESTOR RULE:** An investment standard cited in the California Government Code Section 53600 et seq. Under this standard, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

**QUALIFIED PUBLIC DEPOSITORIES:** A financial institution that: (1) does not claim exemption from the payment of any sales, compensating use, or ad valorem taxes under the laws of this state; (2) has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability; and (3) has been approved by the Public Deposit Protection Commission to hold public deposits.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price.

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

**SECONDARY MARKET:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**SECURITIES AND EXCHANGE COMMISSION:** An agency created by Congress to administer securities legislation for the purpose of protecting investors in securities transactions.

**STRUCTURED NOTES:** Notes issued by instrumentalities (e.g., FHLB, FNMA, SLMA) and by corporations, that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) in their debt structure. The market performance of structured notes is affected by fluctuating interest rates; the volatility of imbedded options; and shifts in the yield curve.



**SUPRANATIONALS:** International institutions that provide development financing, advisory services and/or financial services to their member countries to achieve the overall goal of improving living standards through sustainable economic growth. The California Government Code Section 53601 allows local agencies to purchase the United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB).

**TIME CERTIFICATE OF DEPOSIT:** A non-negotiable certificate of deposit, which cannot be sold prior to maturity.

**TREASURY BILLS:** A non-interest-bearing discount security that is issued by the U.S. Treasury to finance the national debt. Most T-bills are issued to mature in three months, six months, or one year.

**TREASURY BONDS:** Long-term, coupon-bearing U.S. Treasury securities that are issued as direct obligations of the U.S. Government, and having initial maturities of more than 10 years.

**TREASURY NOTES:** Medium-term, coupon-bearing U.S. Treasury securities that are issued as direct obligations of the U.S. Government, and having initial maturities of two to 10 years.

**YIELD:** The rate of annual income return on an investment, expressed as a percentage.

**YIELD-TO-CALL (YTC):** The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

**YIELD-TO-MATURITY:** The current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity.

**ZERO-COUPON SECURITIES:** Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.



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## APPENDIX E

### FORM OF OPINION OF BOND COUNSEL

[Letterhead of Jones Hall, A Professional Law Corporation]

[Closing Date]

City Council  
City of Palo Alto  
250 Hamilton Avenue  
Palo Alto, CA 94301

**OPINION:**      \$\_\_\_\_\_ City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022A  
(Tax-Exempt)

\$\_\_\_\_\_ City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022B  
(Federally Taxable)

Members of the City Council:

We have acted as bond counsel to the City of Palo Alto (the “City”) in connection with the issuance by the City of the general obligation bonds captioned above, dated the date hereof (the “Bonds”). In such capacity, we have examined such law and such certified proceedings, certifications, opinions and other documents as we deem necessary to render this opinion.

The Bond are issued pursuant to a resolution (the “Resolution”) of the City Council of the City adopted on April 18, 2022.

Regarding questions of fact material to our opinion, we have relied on representations of City contained in the Resolution, and on the certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation. Regarding certain questions of law material to our opinion, we have assumed the correctness of certain legal conclusions contained in the written opinions of the City Attorney, and others, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1.        The City is a duly created and validly existing municipal corporation and charter city with the power to adopt the Resolution, perform the agreements on its part contained therein, and issue the Bonds.
2.        The Resolution constitutes a valid and binding obligation City, enforceable against the City.
3.        The Bonds have been duly authorized and executed by City, and are valid and binding general obligations of the City.
4.        The City is obligated and authorized under the laws of the State of California to levy ad valorem taxes, without limit as to rate or amount (except with respect to certain personal property which is taxable at limited rates), upon the taxable property in the City for the payment when due of the principal of and interest on the Bonds.



5. The interest on the Refunding General Obligation Bonds (Election of 2008), Series 2022A (Tax-Exempt) ("Tax-Exempt Bonds") is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Tax-Exempt Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Tax-Exempt Bonds.

6. The City does not intend for the interest on the Refunding General Obligation Bonds (Election of 2008), Series 2022B (Federally Taxable) to be excluded from gross income for federal income tax purposes.

7. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Moreover, our opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service or any court; rather, our opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations, opinions, and covenants referenced above. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation



## APPENDIX F

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) is executed and delivered by the CITY OF PALO ALTO (the “City”) in connection with the issuance of \$ \_\_\_\_\_\* City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022A (the “2022A Bonds”) and the \$ \_\_\_\_\_\* City of Palo Alto Refunding General Obligation Refunding Bonds, Series 2022B (Federally Taxable) (the “2022B Bonds” and, with the 2022A Bonds, the “2022 Bonds”). The 2022 Bonds are being issued pursuant to a resolution adopted by the City Council of the City on May 2, 2022 (the “Resolution”). Pursuant to Section 10.11 of the Resolution, the City covenants and agree as follows:

Section 1. Definitions. In addition to the definitions set forth above and in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 1, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Annual Report Date*” means the March 31 after the end of the City’s Fiscal Year.

“*Dissemination Agent*” shall mean, initially, the City, or any successor Dissemination Agent designed in writing by the City and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

“*Fiscal Year*” means any twelve-month period beginning on July 1 in any year and extending to the next succeeding June 30, both dates inclusive, or any other twelve-month period selected and designated by the City as its official fiscal year period under a Certificate of the City filed with the Trustee.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the City in connection with the issuance of the 2022 Bonds.

“*Participating Underwriter*” means the original underwriters of the 2022 Bonds.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

“*Significant Events*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the 2022 Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2- 12(b)(5).

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\* Preliminary, subject to change.



### Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2022, with the report for fiscal year 2020-21 provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate; *provided, however*, that the first Annual Report shall consist solely of the Official Statement. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Significant Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City in a timely manner shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) The City's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided for in Section 3 above, financial information and operating data with respect to the City for preceding fiscal year, substantially similar to that provided in the following tables in the Official Statement:

- (i) Assessed Valuations of Taxable Property;
- (ii) Assessed Valuation and Parcels by Land Use;
- (iii) Per Parcel Assessed valuation of Single Family Homes;
- (iv) Summary of Ad Valorem Tax Rates;
- (v) Tax Levies and Collections; and
- (vi) Largest Local Secured Taxpayers.



(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

#### Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following Significant Events with respect to the 2022 Bonds:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (vii) Modifications to rights of security holders, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person;
- (xiii) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) The incurrence of a financial obligation of the City or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City or other obligated person, any of which affect security holders, if material; or



(xvi) A default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City or other obligated person, any of which reflect financial difficulties.

(b) Whenever the City obtains knowledge of the occurrence of a Significant Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Significant Event. Notwithstanding the foregoing, notice of Significant Events described in subsection (a)(viii) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected 2022 Bonds under the Resolution.

(c) The City acknowledges that the events described in subparagraphs (a)(ii), (a)(vii), (a)(viii) (if the event is a bond call), (a)(x), (a)(xiii), (a)(xiv) and (a)(xv) of this Section 5 contain the qualifier “if material.” The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the City determines the event’s occurrence is material for purposes of U.S. federal securities law. The City intends that the words used in paragraphs (xv) and (xvi) and the definition of “financial obligation” to have the meanings ascribed thereto in SEC Release No. 34-83885 (August 20, 2018).

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(xii) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2022 Bonds. If such termination occurs prior to the final maturity of the 2022 Bonds, the City shall give notice of such termination in the same manner as for a Significant Event under Section 5(b).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days’ written notice to the City.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 2022 Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2022 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and



(c) the proposed amendment or waiver either (i) is approved by holders of the 2022 Bonds in the manner provided in the Resolution for amendments to the Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the 2022 Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

The Dissemination Agent shall not be obligated to enter into any amendment increasing or affecting its duties or obligations hereunder.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Significant Event under Section 5(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Significant Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Significant Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Significant Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the 2022 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

#### Section 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) Article VIII of the Resolution is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Resolution. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Paying Agent thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Certificate holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2022 Bonds.



(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the 2022 Bonds and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: [Closing Date]

CITY OF PALO ALTO

By \_\_\_\_\_  
Authorized Officer



## EXHIBIT A

## NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Palo Alto, California

Name of Issues: \$\_\_\_\_\_ City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022A, and \$\_\_\_\_\_ City of Palo Alto Refunding General Obligation Refunding Bonds, Series 2022B (Federally Taxable)

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Issues as required by the Continuing Disclosure Certificate, dated [Closing Date], furnished by the City in connection with the Issue. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

Date: \_\_\_\_\_

CITY OF PALO ALTO,  
as Dissemination Agent

By \_\_\_\_\_  
Authorized Officer



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## APPENDIX G

### BOOK-ENTRY SYSTEM

*The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2022 Bonds, payment of principal of and interest on the 2022 Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the 2022 Bonds, confirmation and transfer of beneficial ownership interests in the 2022 Bonds and other Bond related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the 2022 Bonds is based solely on information furnished by DTC to the City which the City believes to be reliable, but the City and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2022 Bonds. The 2022 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the 2022 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2022 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2022 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2022 Bonds, except in the event that use of the book-entry system for the 2022 Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of the 2022 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC



nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2022 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2022 Bonds, such as tenders, defaults, and proposed amendments to the 2022 Bonds documents. For example, Beneficial Owners of the 2022 Bonds may wish to ascertain that the nominee holding the 2022 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2022 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2022 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the 2022 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service as depository with respect to the 2022 Bonds at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-Entry Only transfers through DTC (or a successor securities depository). In that event, the Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

In the event that (a) DTC determines not to continue to act as securities depository for the 2022 Bonds, or (b) the City determines that DTC shall no longer act and delivers a written certificate to the Paying Agent to that effect, then the City will discontinue the Book-Entry System with DTC for the 2022 Bonds. If the City determines to replace DTC with another qualified securities depository, the City will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the 2022 Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Resolution. If the City fails to identify another qualified securities depository to replace the incumbent securities depository for the 2022 Bonds, then the 2022 Bonds shall no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the 2022 Bonds shall designate.



In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the 2022 Bonds will be made available in physical form, (ii) payment of principal of and interest on the 2022 Bonds will be payable upon surrender thereof at the trust office of the Paying Agent identified in the Resolution, and (iii) the 2022 Bonds will be transferable and exchangeable as provided in the Resolution.

*The City and the Paying Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the 2022 Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of and interest on the 2022 Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Resolution; (iv) any consent given or other action taken by DTC as registered owner; or (v) any other matter arising with respect to the 2022 Bonds or the Resolution. The City and the Paying Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of and interest on the 2022 Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The City and the Paying Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the 2022 Bonds or any error or delay relating thereto.*



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## IRREVOCABLE REFUNDING INSTRUCTIONS (2010 Bonds)

**\$55,305,000**  
**City of Palo Alto**  
**General Obligation Bonds**  
**Election of 2008, Series 2010A**

These IRREVOCABLE REFUNDING INSTRUCTIONS (2010 BONDS) (these “Instructions”), are dated \_\_\_\_, 2022, and are given by the CITY OF PALO ALTO, a charter city and municipal corporation organized and existing under the Constitution and laws of the State of California (the “City”), to U.S. BANK TRUST NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, acting as paying agent for the 2010 Bonds described below (the “2010 Paying Agent”).

### B A C K G R O U N D :

1. More than two-thirds of the electors voting at a special municipal election held on November 4, 2008, voted for a proposition, designated Measure N, authorizing the issuance by the City of general obligation bonds in the aggregate principal amount of \$76,000,000 for the purpose of financing the costs of constructing a new energy efficient, environmentally friendly Mitchell Park Library and Community Center, renovating and expanding the Main Library, and renovating the Downtown Library, including enhancements at all three facilities for seismic safety and disabled access, expanded space for library collections, meeting and study areas, and new air conditioning, ventilation and lighting systems.

2. The City issued the captioned bonds (the “2010 Bonds”) pursuant to such authorization, Resolution No. 9057 adopted by the City Council on May 10, 2010 (the “2010 Bond Resolution”) and that certain Paying Agent Agreement, dated as of June 1, 2010 (the “2010 Paying Agent Agreement”), by and between the City and the 2010 Paying Agent.

3. Under the 2010 Paying Agent Agreement, the City is authorized to redeem the 2010 Bonds, in whole or in part on any date on or after August 1, 2020, at a redemption price equal the outstanding principal amount of the 2010 Bonds to be redeemed, plus interest accrued to the redemption date, without premium.

4. In order to realize debt service savings for the benefit of the taxpayers of the City, the City Council has authorized the issuance and sale of its “City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022A (Tax-Exempt)” (the “2022 Bonds”) for the purpose of refinancing the 2010 Bonds pursuant to a resolution adopted on May 9, 2022 (the “2022 Resolution”).

5. The City wishes to give these Instructions to the 2010 Paying Agent for the purpose of establishing an irrevocable escrow fund to be funded, invested, held and



administered for the purpose of providing for the payment and redemption of the 2010 Bonds on \_\_\_\_\_, 2022.

6. As a result of the deposit and investment of funds in accordance with these Instructions, the 2010 Bonds shall be discharged and defeased in accordance with the provisions of Section 9.03 of the 2010 Paying Agent Agreement.

### I N S T R U C T I O N S :

In order to provide for the payment and redemption of the 2010 Bonds in accordance with the 2010 Paying Agent Agreement, the City hereby irrevocably directs the 2010 Paying Agent as follows:

**SECTION 1. *Establishment of Escrow Fund.*** The 2010 Paying Agent is directed to establish an escrow fund (the "Escrow Fund") to be held by the 2010 Paying Agent in trust as an irrevocable escrow securing the payment of the 2010 Bonds as hereinafter set forth. All cash and securities in the Escrow Fund are hereby irrevocably pledged as a special fund for the payment of the principal of and interest on the 2010 Bonds in accordance with the 2010 Paying Agent Agreement.

If at any time the 2010 Paying Agent receives actual knowledge that the cash and securities in the Escrow Fund will not be sufficient to make any payment required by Section 4 in respect of the 2010 Bonds, the 2010 Paying Agent shall notify the City of such fact and the City shall immediately cure such deficiency from any source of legally available funds. The 2010 Paying Agent has no liability for any such insufficiency.

**SECTION 2. *Deposit and Investment of Amounts in Escrow Fund.*** On \_\_\_\_\_, 2022 (the "Closing Date"), the City shall cause to be transferred to the 2010 Paying Agent for deposit into the Escrow Fund the amount of \$\_\_\_\_\_ in immediately available funds, to be derived from the proceeds of the Refunding Bonds received by the 2010 Paying Agent on the Closing Date.

Also on the date hereof, the 2010 Paying Agent shall transfer the following amounts from the funds and accounts established and held by the 2010 Paying Agent under the 2010 Paying Agent Agreement for deposit in the Escrow Fund: **[identify other sources of funds]**

The 2010 Paying Agent shall hold all amounts in the Escrow Fund uninvested.

**SECTION 3. *Application of Amounts in Escrow Fund.*** Amounts held by the 2010 Paying Agent in the Escrow Fund shall be withdrawn to pay the redemption price of the 2010 Bonds on \_\_\_\_\_, 2022 (the "Redemption Date").

Following payment and redemption in full of all of the 2010 Bonds on the Redemption Date, the 2010 Paying Agent shall withdraw any amounts remaining on deposit in the Escrow Fund and transfer such amounts to the City, to be deposited in the Debt Service Fund established for the Refunding Bonds and applied to pay debt service coming due on the Refunding Bonds.

**SECTION 4. *Irrevocable Election to Redeem 2010 Bonds; Redemption Notice.*** The City hereby irrevocably elects to redeem all of the outstanding 2010 Bonds on the



Redemption Date, in accordance with the provisions of Section 2.03(a) of the 2010 Paying Agent Agreement.

The City previously directed the 2010 Paying Agent to give notice of the redemption of the 2012 Bonds in accordance with Section 2.03(c) of the 2010 Paying Agent Agreement in substantially the form of Exhibit A.

The City hereby directs the 2010 Paying Agent to file a notice of defeasance of the 2010 Bonds in substantially the form of Exhibit B on the Electronic Municipal Market Access system ("EMMA") on the date hereof. The sole remedy for failure to post such notice on EMMA shall be an action by the holders of the 2010 Bonds in mandamus for specific performance or similar remedy to compel performance.

SECTION 5. *Application of Certain Terms of 2010 Paying Agent Agreement.* All of the terms of the 2010 Paying Agent Agreement relating to the payment and redemption of the 2010 Bonds, and the protections, immunities and limitations from liability afforded the 2010 Paying Agent as paying agent for the 2010 Bonds, are incorporated in these Instructions as if set forth in full herein.

SECTION 6. *Compensation to Paying Agent.* The City shall pay the 2010 Paying Agent full compensation for its services under these Instructions, including out-of-pocket costs such as publication costs, redemption expenses, legal fees and other costs and expenses relating hereto and, in addition, all fees, costs and expenses relating to the purchase, substitution or withdrawal of any securities after the date hereof. Under no circumstances shall amounts deposited in or credited to the Escrow Fund be deemed to be available for said purposes. The 2010 Paying Agent has no lien upon or right of set off against the cash and securities at any time on deposit in the Escrow Fund.

#### CITY OF PALO ALTO

By: \_\_\_\_\_  
City Manager

ACCEPTED:

**U.S. BANK TRUST NATIONAL  
ASSOCIATION,**  
as Paying Agent

By \_\_\_\_\_  
Authorized Officer



**EXHIBIT A**  
**FORM OF CONDITIONAL NOTICE OF REDEMPTION**

**\$55,305,000**  
**City of Palo Alto**  
**General Obligation Bonds**  
**Election of 2008, Series 2010A**

NOTICE IS HEREBY GIVEN, by the City of Palo Alto (the "City") that the captioned bonds (the "2010 Bonds") have been called for redemption on \_\_\_\_\_, 2022 (the "Redemption Date") at a redemption price equal to the par amount thereof together with accrued interest thereon to the redemption date, without premium (the "Redemption Price"). Interest on the 2010 Bonds will not accrue after the redemption date.

The 2010 Bonds consist of the following:

<u>Maturity Date</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>(Base 697362)</u>
2022	\$1,450,000	4.500	TG6
2023	1,515,000	4.500	TH4
2024	1,585,000	4.500	TJ0
2025	1,655,000	4.500	TK7
2026	1,730,000	5.000	TL5
2027	1,820,000	5.000	TM3
2028	1,910,000	5.000	TN1
2029	2,005,000	5.000	TP6
2032 (T)	6,595,000	4.375	TQ4
2034 (T)	4,890,000	4.375	TR2
2040 (T)	17,725,000	5.000	TS0

(T) Term Bond

**Redemption of the 2010 Bonds as described in this notice shall be conditioned upon the receipt by the 2010 Paying Agent from the City of the funds necessary for the proposed redemption on or before the Redemption Date.**

Payment of the Redemption Price of the 2010 Bonds will become due and payable on the Redemption Date upon presentation and surrender thereof in the following manner:

**[to come from US Bank]**

**IMPORTANT NOTICE**

Under the Tax Cuts and Jobs Act of 2017 (the "Act"), 24% will be withheld if tax identification number is not properly certified.

The City and the Paying Agent shall not be responsible for the selection or use of the CUSIP numbers listed above, nor is any representation made as to the accuracy of the CUSIP numbers listed above or as printed on any 2010 Bond; the CUSIP numbers are included solely for the convenience of the owners of the 2010 Bonds.



Dated: \_\_\_\_\_, 2022

**U.S. BANK TRUST COMPANY NATIONAL  
ASSOCIATION,**  
*as Paying Agent*



**EXHIBIT B**  
**FORM OF NOTICE OF DEFEASANCE**

**\$55,305,000**  
**City of Palo Alto**  
**General Obligation Bonds**  
**Election of 2008, Series 2010A**

NOTICE IS HEREBY GIVEN, by the City of Palo Alto (the "City") that the captioned bonds (the "2010 Bonds") has been defeased and discharged under and within the meaning of the Paying Agent Agreement, dated as of June 1, 2010 ("Paying Agent Agreement"), by and between the City and U.S. Bank Trust Company National Association, as paying agent ("Paying Agent"), related to the 2010 Bonds. Funds for the payment of the 2010 Bonds have been deposited with the Paying Agent, and the sufficiency of the funds and investments for the purpose of paying the principal of and interest on the 2010 Bonds has been verified by \_\_\_\_\_, certified public accountants. As a consequence of the foregoing actions and in accordance with the Paying Agent Agreement, the 2010 Bonds are no longer secured by a pledge of revenues under the Paying Agent Agreement, and the 2010 Bonds are now payable solely from the moneys set aside in escrow as described above and, if necessary, from other legally available funds of the City.

The City has irrevocably elected to redeem all of the outstanding 2010 Bonds on \_\_\_\_\_, 2022, at a redemption price equal to the par amount thereof together with accrued interest thereon to the redemption date, without premium.

The 2010 Bonds that have been defeased and discharged consist of the following:

<u>Maturity Date</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>(Base 697362)</u>
2022	\$1,450,000	4.500	TG6
2023	1,515,000	4.500	TH4
2024	1,585,000	4.500	TJ0
2025	1,655,000	4.500	TK7
2026	1,730,000	5.000	TL5
2027	1,820,000	5.000	TM3
2028	1,910,000	5.000	TN1
2029	2,005,000	5.000	TP6
2032 (T)	6,595,000	4.375	TQ4
2034 (T)	4,890,000	4.375	TR2
2040 (T)	17,725,000	5.000	TS0

(T) Term Bond

The City and the Paying Agent shall not be responsible for the selection or use of the CUSIP numbers listed above, nor is any representation made as to the accuracy of the CUSIP numbers listed above or as printed on any 2010 Bond; the CUSIP numbers are included solely for the convenience of the owners of the 2010 Bonds.



Dated: \_\_\_\_\_, 2022

**U.S. BANK TRUST COMPANY NATIONAL  
ASSOCIATION,**  
*as 2010 Paying Agent*



## **ESCROW DEPOSIT AND TRUST AGREEMENT (2013 Bonds)**

**Relating to**

**\$20,695,000  
City of Palo Alto  
General Obligation Bonds  
Election of 2008, Series 2013A**

This ESCROW DEPOSIT AND TRUST AGREEMENT (2013 BONDS) (this “Agreement”), dated \_\_\_\_\_, 2022, is between the CITY OF PALO ALTO, a charter city and municipal corporation organized and existing under the Constitution of the State of California (the “City”), and U.S. BANK TRUST COMPANY NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, in its capacity as paying agent (the “2013 Paying Agent”) under that certain Paying Agent Agreement, dated as of June 1, 2013 (the “2013 Paying Agent Agreement”), by and between the City and the 2013 Paying Agent.

### ***BACKGROUND:***

1. More than two-thirds of the electors voting at a special municipal election held on November 4, 2008, voted for a proposition, designated Measure N, authorizing the issuance by the City of general obligation bonds in the aggregate principal amount of \$76,000,000 for the purpose of financing the costs of constructing a new energy efficient, environmentally friendly Mitchell Park Library and Community Center, renovating and expanding the Main Library, and renovating the Downtown Library, including enhancements at all three facilities for seismic safety and disabled access, expanded space for library collections, meeting and study areas, and new air conditioning, ventilation and lighting systems.

2. Pursuant to such authorization, Resolution No. 9334, adopted by the City Council on May 6, 2013 (the “2013 Bond Resolution”), and the 2013 Paying Agent Agreement, the City previously issued the captioned bonds (the “2013 Bonds”).

3. Under the 2013 Paying Agent Agreement, the City is authorized to redeem the 2013 Bonds maturing on or after August 1, 2024, in whole or in part on any date on or after August 1, 2023, at a redemption price equal the outstanding principal amount of the 2013 Bonds to be redeemed, plus interest accrued to the redemption date, without premium.

4. In order to realize debt service savings for the benefit of the taxpayers of the City, the City Council has authorized the issuance and sale of its “City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022B (Federally Taxable)” (the “2022 Bonds”) for the purpose of refinancing the 2013 Bonds pursuant to a resolution adopted on May 9, 2022 (the “2022 Resolution”).



5. The City Council is authorized to provide for the issuance and sale of the 2022 Bonds under the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53550 of said Code (the "Bond Law").

6. The City wishes to establish an irrevocable escrow fund to be funded, invested, held and administered for the purpose of providing for the payment in full of the principal, interest and redemption premium on the outstanding 2013 Bonds.

7. As a result of the deposit and investment of funds in accordance with this Agreement, the 2013 Bonds will be discharged and defeased in accordance with the provisions of Section 9.03 of the 2013 Paying Agent Agreement.

### A G R E E M E N T :

In consideration of the premises and the material covenants contained herein, the City and the 2013 Paying Agent hereby agree as follows:

**SECTION 1. *Establishment of Escrow Fund.*** The 2013 Paying Agent is hereby directed to establish an escrow fund (the "Escrow Fund") to be held by the 2013 Paying Agent in trust as an irrevocable escrow securing the payment of the 2013 Bonds as hereinafter set forth. All cash and securities in the Escrow Fund are hereby irrevocably pledged as a special fund for the payment of the principal of and interest and premium on the 2013 Bonds in accordance with the 2013 Paying Agent Agreement.

If at any time the 2013 Paying Agent receives actual knowledge that the cash and securities in the Escrow Fund will not be sufficient to make any payment required by Section 4 in respect of the 2013 Bonds, the 2013 Paying Agent shall notify the City of such fact and the City shall immediately cure such deficiency from any source of legally available funds. The 2013 Paying Agent has no liability for any such insufficiency.

**SECTION 2. *Deposit and Investment of Amounts in Escrow Fund.*** On the date hereof (the "Closing Date"), the City shall cause to be transferred to the 2013 Paying Agent for deposit into the Escrow Fund the amount of \$\_\_\_\_\_ in immediately available funds, to be derived from the proceeds of the 2022 Bonds.

Also on the date hereof, the 2013 Paying Agent shall transfer the following amounts from the funds and accounts established and held by the 2013 Paying Agent under the 2013 Paying Agent Agreement for deposit in the Escrow Fund: **[identify other sources of funds]**

On the Closing Date, the 2013 Paying Agent shall invest \$\_\_\_\_\_ of the amounts deposited in the Escrow Fund in the federal securities listed on Exhibit A. The 2013 Paying Agent shall hold the remaining \$\_\_\_\_\_ in cash, uninvested.

If the 2013 Paying Agent learns that the Department of the Treasury or the Bureau of Public Debt will not, for any reason, accept a subscription of state and local government series securities ("SLGS") that is to be submitted pursuant to this Agreement, the 2013 Paying Agent shall promptly request alternative written investment instructions from the City with respect to funds which were to be invested in SLGS. The 2013 Paying Agent



shall follow such instructions and, upon the maturity of any such alternative investment, the 2013 Paying Agent shall hold such funds uninvested and without liability for interest until receipt of further written instructions from the City. In the absence of investment instructions from the City, the 2013 Paying Agent shall hold such funds uninvested. The 2013 Paying Agent may conclusively rely upon the City's selection of an alternative investment as a determination of the alternative investment's legality and suitability and shall not be liable for any losses related to the alternative investments or for compliance with any yield restriction applicable thereto.

SECTION 3. *Application of Amounts in Escrow Fund.* The 2013 Paying Agent is hereby instructed to withdraw from the Escrow Fund the amounts required to pay the principal of and interest and redemption premium on the 2013 Bonds, in accordance with the schedule attached as Exhibit B hereto.

Following the payment and redemption of the 2013 Bonds in full, the 2013 Paying Agent shall transfer any amounts remaining on deposit in the Escrow Fund to U.S. Bank Trust Company National Association, in its capacity as paying agent for the 2022 Bonds, for deposit into the Debt Service Fund established under the 2022 Resolution, to be applied to pay interest next coming due and payable on the 2022 Bonds.

SECTION 4. *Irrevocable Election to Redeem 2013 Bonds; Defeasance Notice; Redemption Notice.* The City has irrevocably elected to pay and redeem all of the outstanding 2013 Bonds on the dates set forth in Exhibit B, in accordance with the provisions of the 2013 Bond Resolution.

The 2013 Paying Agent is hereby directed to provide notice of redemption in the form attached as Exhibit C to the owners of the 2013 Bonds, in accordance with 2013 Paying Agent Agreement, not less than 30 or more than 60 days prior to the redemption date.

The City further hereby directs the 2013 Paying Agent to file on the Closing Date the notice attached as Exhibit D on the Municipal Securities Rulemaking Board's EMMA system.

SECTION 5. *Compensation to 2013 Paying Agent.* The City shall pay the 2013 Paying Agent full compensation for its services under this Agreement, including out-of-pocket costs such as publication costs, redemption expenses, legal fees and other costs and expenses relating hereto and, in addition, all fees, costs and expenses relating to the purchase, substitution or withdrawal of any securities after the date hereof. Under no circumstances shall amounts deposited in or credited to the Escrow Fund be deemed to be available for said purposes. The 2013 Paying Agent has no lien upon or right of set off against the cash and securities at any time on deposit in the Escrow Fund.

SECTION 6. *Immunities and Liability of 2013 Paying Agent.* All of the terms of the 2013 Paying Agent Agreement relating to the payment and redemption of the 2013 Bonds, and the protections, immunities and limitations from liability afforded the 2013 Paying Agent as paying agent for the 2013 Bonds, are incorporated herein as if set forth in full herein.

SECTION 7. *Termination of Agreement.* Upon payment in full of the principal of and interest and redemption premium on the 2013 Bonds and all fees, expense and



charges of the 2013 Paying Agent as described above, this Agreement shall terminate and the 2013 Paying Agent shall be discharged from any further obligation or responsibility hereunder.

SECTION 8. *Execution in Counterparts.* This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.



SECTION 9. *Applicable Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of California.

**CITY OF PALO ALTO**

By: \_\_\_\_\_  
City Manager

**U.S. BANK TRUST COMPANY  
NATIONAL ASSOCIATION**, as 2013  
Paying Agent

By: \_\_\_\_\_  
Authorized Officer



**EXHIBIT A**  
**ESCROW SECURITIES**

<u>Type of Security</u>	<u>CUSIP</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Par Amount</u>	<u>Rate</u>	<u>Price</u>	<u>Interest Class</u>
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**EXHIBIT B**  
**ESCROW REQUIREMENTS**

<u>Payment Date</u>	<u>Interest Payment</u>	<u>Maturing Principal</u>	<u>Redeemed Principal</u>	<u>Redemption Premium</u>	<u>Total Payment</u>
8/1/22					
2/1/23					
8/1/23				\$0.00	



**EXHIBIT C**  
**FORM OF NOTICE OF REDEMPTION**

**\$20,695,000**  
**City of Palo Alto**  
**General Obligation Bonds**  
**Election of 2008, Series 2013A**

NOTICE IS HEREBY GIVEN, by the City of Palo Alto (the "City") that the captioned bonds (the "2013 Bonds") have been called for redemption on August 1, 2023 (the "Redemption Date") at a redemption price equal to the par amount thereof together with accrued interest thereon to the redemption date, without premium (the "Redemption Price"). Interest on the 2013 Bonds will not accrue after the redemption date.

The 2013 Bonds consist of the following:

<u>Maturity Date</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>(Base 697362)</u>
2022	\$485,000	4.0%	UF6
2023	505,000	4.0	UG4
2024	525,000	5.0	UH2
2025	555,000	5.0	UJ8
2026	585,000	5.0	UK5
2027	610,000	5.0	UL3
2028	645,000	5.0	UM1
2029	670,000	3.5	UN9
2030	695,000	4.0	UP4
2031	725,000	4.0	UQ2
2033 (T)	1,540,000	4.0	UR0
2035 (T)	1,670,000	4.0	US8
2038 (T)	2,765,000	4.0	UT6
2043 (T)	5,415,000	4.0	UU3

(T) Term Bond

Funds for the payment of the 2013 Bonds have been deposited with U.S. Bank Trust Company National Association, as paying agent, and the sufficiency of the funds and investments for the purpose of paying the principal of and interest on the 2013 Bonds has been verified by \_\_\_\_\_, certified public accountants.

Payment of the Redemption Price of the 2013 Bonds will become due and payable on the Redemption Date upon presentation and surrender thereof in the following manner:

**[to come from US Bank]**

**IMPORTANT NOTICE**

Under the Tax Cuts and Jobs Act of 2017 (the "Act"), 24% will be withheld if tax identification number is not properly certified.



The City and the Paying Agent shall not be responsible for the selection or use of the CUSIP numbers listed above, nor is any representation made as to the accuracy of the CUSIP numbers listed above or as printed on any 2013 Bond; the CUSIP numbers are included solely for the convenience of the owners of the 2013 Bonds.

Dated: \_\_\_\_\_, 2023

**U.S. BANK TRUST COMPANY NATIONAL  
ASSOCIATION,**  
*as Paying Agent*



**EXHIBIT D****FORM OF NOTICE OF DEFEASANCE**

**\$20,695,000**  
**City of Palo Alto**  
**General Obligation Bonds**  
**Election of 2008, Series 2013A**

NOTICE IS HEREBY GIVEN, by the City of Palo Alto (the "City") that the captioned bonds (the "2013 Bonds") has been defeased and discharged under and within the meaning of the Paying Agent Agreement, dated as of June 1, 2013 ("Paying Agent Agreement"), by and between the City and U.S. Bank Trust Company National Association, as paying agent ("Paying Agent"), related to the 2013 Bonds. Funds for the payment of the 2013 Bonds have been deposited with the Paying Agent, and the sufficiency of the funds and investments for the purpose of paying the principal of and interest on the 2013 Bonds has been verified by \_\_\_\_\_, certified public accountants. As a consequence of the foregoing actions and in accordance with the Paying Agent Agreement, the 2013 Bonds are no longer secured by a pledge of revenues under the Paying Agent Agreement, and the 2013 Bonds are now payable solely from the moneys set aside in escrow as described above and, if necessary, from other legally available funds of the City.

The City has irrevocably elected to redeem all of the outstanding 2013 Bonds maturing on or after August 1, 2024, on August 1, 2023, at a redemption price equal to the par amount thereof together with accrued interest thereon to the redemption date, without premium.

The 2013 Bonds that have been defeased and discharged consist of the following:

<u>Maturity Date</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>CUSIP</u> <u>(Base 697362)</u>
2022	\$485,000	4.0%	UF6
2023	505,000	4.0	UG4
2024	525,000	5.0	UH2
2025	555,000	5.0	UJ8
2026	585,000	5.0	UK5
2027	610,000	5.0	UL3
2028	645,000	5.0	UM1
2029	670,000	3.5	UN9
2030	695,000	4.0	UP4
2031	725,000	4.0	UQ2
2033 (T)	1,540,000	4.0	UR0
2035 (T)	1,670,000	4.0	US8
2038 (T)	2,765,000	4.0	UT6
2043 (T)	5,415,000	4.0	UU3

(T) Term Bond

The City and the Paying Agent shall not be responsible for the selection or use of the CUSIP numbers listed above, nor is any representation made as to the accuracy of



the CUSIP numbers listed above or as printed on any 2013 Bond; the CUSIP numbers are included solely for the convenience of the owners of the 2013 Bonds.

Dated: \_\_\_\_\_, 2022

**U.S. BANK TRUST COMPANY NATIONAL  
ASSOCIATION,**  
*as 2013 Paying Agent*





## City of Palo Alto City Council Staff Report

(ID # 14330)

Meeting Date: 5/2/2022

Report Type: Action Items

**Title: Policy and Services Committee Recommends that the City Council Direct Staff to Reduce the Length of the Community Survey and Work with the Chair of the Policy & Services Committee as an Ad Hoc**

**From: City Manager**

**Lead Department: City Manager**

### Recommendation

The Policy and Services Committee Recommends that the City Council Direct Staff to Reduce the Length of the Community Survey and Work with the Chair of the Policy & Services Committee as an Ad Hoc.

### Background

At the April 12, 2022 Policy and Services Committee, the Committee voted 2-1 with the following motion:

*To recommend the City Council: Direct staff to reduce the length of the [community] survey and work with the Chair of the Policy & Services Committee as an ad hoc.*

This motion came after discussion of the staff report with an overview of the existing survey questions ([CMR #14242](#)). The Committee reflected on the work done by the Policy and Services Committee in 2020 in preparation of the last survey ([CMR #11500](#); [Minutes](#)) where the 2020 Policy and Services Committee reviewed the questions and assigned an ad hoc committee to finalize the questions.

### Discussion

The Policy and Services Committee at the April 12 discussion expressed interest in reviewing the survey questions with the Policy and Services Chair as an ad hoc to find ways to shorten the survey if possible while ensuring that year-over-year survey comparison data was not lost. Staff informed the Committee that the review should happen this spring to ensure that the survey could go out on time this fall to receive the survey data before the City Council retreat early next year.

### Timeline, Resource Impact, Policy Implications

As mentioned in the Policy and Services Committee report, the survey is in the FY 2023 City Council budget. The Fiscal Year 2022 Adopted Budget moved the survey to an every other year



cycle as a cost saving measure as approved by the City Council. Fiscal Year 2023 is a survey year and the survey would occur in fall 2022. The ad hoc committee work proposed here would require staff time but can be done with existing resources.





## City of Palo Alto City Council Staff Report

(ID # 14331)

**Meeting Date: 5/2/2022**

**Report Type: Action Items**

**Title: Clarification of In-Person Attendance Protocols for Council Committees and Boards and Commissions (Continued from April 4, 2022 Meeting)**

**From: City Manager**

**Lead Department: City Manager**

### **Recommendation**

Staff recommends that Council confirm the expectation that Councilmembers will attend committees and clarify expectations regarding board and commission remote participation.

### **Background**

At its September 27, 2021 meeting, the City Council approved the following actions related to virtual, in-person, and hybrid council and board and commission meetings:

- A. Begin hybrid City Council meetings on November 1, 2021, and not requiring Standing Committees, Ad-Hoc Committees, Boards and Commissions to physically convene until January 2022;
- B. Require the public, Staff and City Council Members to provide proof of vaccination or a negative COVID-19 test within 48 hours prior to the meeting;
- C. Provide an option for City Council to attend in-person or virtually as long as the Santa Clara County maintains mandatory indoor masking for public meetings;
- D. Upon the end of mandatory indoor masking, modify the City Council protocols to increase City Council's teleconference participation to 5 meetings per year;
- E. Request Staff to allow virtual attendees to participate by video, barring technical barriers in doing so; and
- F. Upon relevant changes in Santa Clara County's or the CDC's guidelines, for City Council to revisit the guidelines, consider a default standard for in-person meetings if provided by the Santa Clara County, and discuss other in-person meeting requirements.

The City Council subsequently postponed the resumption of in-person and hybrid committee and board/commission meetings until March 1, 2022, and deleted the requirement for proof of vaccination or negative COVID-19 test in-person attendance.



The Brown Act allows legislative bodies to use remote participation, but it is up to each body whether to do so or not. There is no requirement in state law regarding how this decision is made. It may be made by explicit rule, by motion, or simply by practice, but individual members of a legislative body do not have a right to participate remotely where their legislative body elects not to allow remote participation.

For legislative bodies that allow remote participation, the Brown Act (Gov Code section 54953) has two alternative sets of procedural rules that must be followed. The default baseline set of rules requires each remote location to be listed on the face of the agenda, and mandates that each remote location be open to the public to attend the meeting alongside the remotely-participating member. Under the recently-adopted AB 361, where there is a State of Emergency and the body makes a finding every 30 days that state or local officials are mandating or encouraging social distancing measures, the remote participation procedures are streamlined: remote locations do not need to be disclosed and need not be open to the public. Legislation is currently being considered in Sacramento that may modify the baseline requirements in the future.

The Council's Procedures and Protocols Handbook explicitly authorizes remote participation for meetings of the full Council, and limits that practice to three times per year. Subpart D of the Council's September 27, 2021 action modifies this rule by allowing remote participation for up to five meetings per year. (The Procedures and Protocols Handbook will be amended to reflect this new direction.)

To date, the City Council and the boards and commissions have, every 30 days, adopted a resolution authorizing the use of teleconferencing under Government Code Section 54953(e), allowing for use of the streamlined AB 361 procedures. The most recent Council approval is scheduled for the City Council's April 4, 2022 meeting.

## **Discussion**

Several questions have arisen as to the City Council's expectations of councilmembers' in-person versus remote attendance at committee meetings, as well as expectations of board and commission members.

Council Committees. Neither the Council's motion nor the Council's Procedures and Protocols Handbook addresses remote attendance at committees. Council should clarify – by motion, which will subsequently be incorporated in the Procedures and Protocols – whether Councilmembers may participate in Council committee meetings remotely, and if so, is the ability to do so unlimited or limited in number or in some other way.

Recognizing the practical challenges with routine remote attendance, staff recommends that the City Council affirm the expectation that councilmembers attend committee in person.

AB 361 Streamlined Procedures. At this time, because the State of Emergency remains



in place and the Santa Clara County health official continues to strongly encourage the wearing of masks in indoor spaces, it is possible for Council to continue to make the AB 361 findings and use streamlined procedures for remote participation. This is discretionary, however. Council could pull the AB 361 resolution from the April 4 agenda or a majority could register a no vote. Council could adopt the AB 361 resolution for April but clarify for staff whether it wishes the AB 361 resolution to be placed on the first May agenda (assuming that a State of Emergency remains in place and the Council health official's direction social distancing provides a basis for making the finding).

Boards and Commissions. Council has the option to make a Citywide rule on the above issues, which would apply to all the boards and commissions, or, Council can leave these decisions up to each subsidiary body. If a Citywide rule is desired, staff recommends adopting it by motion tonight for later incorporation into the Board and Commission Handbook. If Council decides that each board and commission can decide for itself how to proceed, boards and commissions will have the option to adopt a procedural rule or simply proceed by practice.

Presumably, Councilmembers serving as liaisons to boards and commissions will follow whatever procedure applies to that board or commission, but Council can provide direction on this if a separate rule for Councilmember liaisons is desired.

To summarize, Council should provide direction on the following issues:

1. May Councilmembers participate remotely in Council committee meetings?
  - a. If yes, is remote participation unlimited, or is there a numerical or other limit on remote participation?
2. For April and/or thereafter, does Council wish to continue making the AB 361 findings, allowing for streamlined noticing?
3. Does Council wish to weigh in on these issues for the boards and commissions (including Councilmember liaisons), or should each board or commission decide for itself? Specifically:
  - a. Is remote participation allowed, and if so, are there limits?
  - b. Should the AB 361 findings continue to be made, allowing for streamlined noticing?





## City of Palo Alto City Council Staff Report

(ID # 14169)

Meeting Date: 5/2/2022

Report Type: Information Reports

### Title: Informational Report on Two Developments on International Shipments of Palo Alto's Recyclable Materials

From: City Manager

Lead Department: Public Works

#### Recommendation

This is an informational report and no Council action is required.

#### Background

Palo Alto's recyclable materials are processed at the GreenWaste Materials Recovery Facility in San Jose where they are combined with recyclables from other communities, separated by type, baled, and marketed. The City requires GreenWaste of Palo Alto (GWPA), the City's refuse hauler, to report on the disposition of recyclable materials as well as to gather information on the environmental and social implications associated with the further offsite processing of Palo Alto's recyclable materials. For Fiscal Year 2021, GWPA reported ([Staff Report #13535](#)) that approximately 14,000 tons of recyclable materials were recovered from Palo Alto's refuse, with about 40% staying in the US and 60% being exported to India, Indonesia, Korea, Malaysia, Mexico, Taiwan, Thailand, Vietnam, and other countries. However, the GWPA report is generalized and does not explain exactly which shipments go to which cities or facilities within those countries. Despite its significant efforts, and three years of trying, GWPA was not able to get this information from the initial brokers which then ship materials to international markets primarily because the brokers consider this market information to be confidential. Therefore, it has not been possible to determine with certainty whether the materials are being recycled, or whether they are causing environmental, human health, or social problems, once they are shipped to international markets. On May 24, 2021 ([Staff Report #11632](#)), during discussions on these concerns as part of the new solid waste processing contract, Council directed staff to:

- 1) Pursue, with other cities, to have GreenWaste provide greater accounting of secondary markets that they utilize;
- 2) Return to Council with an amendment to the GWPA Contract to authorize a quick response to opportunities to utilize domestic mixed paper recycling;
- 3) Provide GreenWaste reports to the public and City Council on a regular basis;
- 4) Work with other cities on legislation to spur domestic or in-state recycling; and
- 5) If GreenWaste is unable to provide additional secondary market accounting, return to Council for consideration of further actions.



Staff provided an update to Council on each of these directives on January 24, 2022 ([Staff Report #13535](#)).

### **Discussion**

Staff has two new updates to report: a) initiation of a pilot project to take advantage of an opportunity to use domestic markets for processing instead of international markets (mostly related to directive #2 above), and b) hosting virtual forums on the international shipment of recyclables with other local cities (related to directives #1 and #4 above).

- a) GWPA has located domestic processing facilities to take Palo Alto's recyclable materials where they will become new products, rather than sending them to international markets where their disposition and impacts are uncertain. It has been very difficult for GWPA to find domestic markets for several recyclables, including cardboard, mixed paper, and plastic. Capacity at US processing facilities for these recyclables is very competitive and this opportunity will be short lived, so staff has moved rapidly to implement a pilot program for the remainder of Fiscal Year 2022, under the current contract. The processing facility for plastics is in California and the processing facility for mixed paper is in Louisiana. Staff plans to take the Council options and recommendations for approval of a permanent program for future years as soon as possible. These actions by staff respond to Council's direction to amend the GWPA Contract to provide for quick response in this area.
- b) Palo Alto and San Jose are co-hosting several virtual forums on the international shipments of recyclables. The first forum was held on March 16, 2022 and was attended by approximately 40 local government staff mostly from cities and counties in Santa Clara County and Alameda County. The successful discussion included the sharing of information and ideas on actions that can be taken to increase transparency on the processing of recyclable materials, the options for creating standardized accepted materials for recycling, and the potential to improve and expand domestic markets for recyclable materials. These forums respond to the direction from Council to coordinate with other cities on this topic. Future forums will include haulers and processors of recyclable materials, members of the public, the business community, and other jurisdictions.

### **Resource Impact**

The pilot program for domestic processing of rigid plastics and mixed paper is estimated to cost \$280,000 for April through June of Fiscal Year 2022, based on the estimated tons to be processed. The pilot costs will be incorporated into the existing expenditures provided through the Fiscal Year 2022 Refuse Fund operating budget. Options being explored for a permanent program for future years will require additional funding within the Refuse Fund for increased associated future expenses and are subject to Council's approval.



**Stakeholder Engagement**

The current stakeholder engagement includes conducting several virtual forums with other cities and jurisdictions focusing on increasing the knowledge of the environmental and social issues that international shipping of recyclables may be causing, sharing information as well as exploring solutions. Future forums will include haulers and processors of recyclable materials, members of the public, and the business community.

**Environmental Review**

This item is presented only for Council's information and therefore it is not a project subject to environmental review by the California Environmental Quality Act (CEQA).





## City of Palo Alto City Council Staff Report

(ID # 14262)

**Meeting Date: 5/2/2022**

**Report Type: Information Reports**

**Title: Sales Tax Digest Summary Calendar 2021 Q4**

**From: City Manager**

**Lead Department: Administrative Services**

### DISCUSSION

This report transmits information regarding the City of Palo Alto's sales tax receipts for the fourth quarter (October to December) of 2021.

There are two attachments to this report that provide further level of information:

- City of Palo Alto Sales Tax Digest Summary (Attachment A)
- California Policy Update – March 2022 (Attachment B)

The City's sales tax cash receipts of \$9 million for the fourth quarter (October to December 2021) is \$1.6 million (18.4 percent) higher than the same quarter of the prior year (see Attachment A, Table 5). In contrast, the fourth quarter of 2021 compared to the same quarter of 2019 declined by \$847,000(9.4 percent). An important reminder is that the state offered small business a second round of 90-day extensions to pay their fourth quarter of 2020 taxes, and some companies made little or no payments in Q4 of 2020 due to this program. While Palo Alto experienced a 18.4% cash increase for the Q4 2021 from Q4 2020 this comparison includes late payment decreases in the prior year related to the state 90-day extension program, so actual Q4 2021 economic activity did not increase to this extent. After adjustments made for the non-period related payments, the overall economic quarter-over-quarter sales tax activity from Q4 2020 to Q4 2021 increased by 16.7 percent.

For the year ending in the fourth quarter of 2021, cash receipts (including county pools) for the City increased by 18.4 percent from the prior year. In comparison, statewide increased by 26.7 percent, Northern California increased by 23.7 percent, and Southern California by 29.0 percent.

After adjustments for non-period related payments, the overall economic sales tax activity (local business excluding pools) in Palo Alto for 2021 increased by 17.0 percent, while it increased 15.6 percent for the state, increased 11.6 percent in Northern California and increased 18.3 percent in Southern California.



The fourth quarter includes \$1.8 million of sales tax receipts from the county pool. The City's share of the county pool for this quarter is 5.9 percent, a slight increase from 5.6 percent in the fourth quarter of 2020. County pools are primarily from online purchases from out of state companies, remote sellers who ship merchandise to California/County destinations, and private vehicle sales that are not directly allocated to a jurisdiction. County pools are allocated to local jurisdictions based on each jurisdiction's share of total sales taxes.

**Attachments:**

- **Attachment17.a:** Attachment A Palo Alto 2021Q4 Digest Summary
- **Attachment17.b:** Attachment B California Policy Update



**City of Palo Alto**  
**Sales Tax Digest Summary**  
**Collections through February 2022**  
**Sales October through December 2021 (2021Q4)**

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### ***California Overview***

For the year ending in fourth quarter of 2021, cash receipts increased 26.7% statewide, 23.7% in Northern California and 29.0% in Southern California. However, when adjusted for non-period related payments, the overall economic sales tax activity for the year ending in fourth quarter of 2021 increased by 15.6% statewide, 18.3% in Southern California, and up 11.6% in Northern California.

### ***City of Palo Alto***

For the year ending in the fourth quarter of 2021, sales tax cash receipts for the city increased by 18.4% from the prior year. However, when adjusted for non-period related payments, the overall economic sales tax activity in Palo Alto for the year ending in fourth quarter of 2021 increased by 17.0%.

On a quarterly basis, sales tax cash receipts increased by 22.5% from Quarter 4 of 2020 to Quarter 4 of 2021. However, this increase includes late payment anomalies related to a state sales tax extension program (see note below). The period's cash receipts include tax from business activity during the period, payments for prior periods and other cash adjustments. When adjusted for non-period related payments, the overall economic quarter over quarter sales tax activity (Q4 2020 to Q4 2021) in Palo Alto increased by 16.7%.

Note: It is important to recognize that the state offered small businesses a second round of 90-day extensions to pay their fourth quarter of 2020 taxes (the first 90 day extension program was offered in Q1 2020), and some businesses had partial or no payments for the first and fourth quarters of 2020. As a result of these extension programs, some payments for Q4 2020 economic activity were paid in the first quarter of 2021. While Palo Alto experienced a 18.4% cash increase for the Q4 2021 (from Q4 2020), this comparison includes late payment decreases in the prior year related to the state 90-day extension program, so actual Q4 2021 economic activity did not increase to this extent.

### ***Regional Overview***

The first chart on page two shows adjusted economic benchmark year amounts, which means that it shows a full calendar year from the fourth quarter of 2020 through fourth quarter of 2021 compared to fourth quarter of 2019 through fourth quarter of 2020 (benchmark years are rolling annual comparisons through the current quarter). The decrease is different between the state and Palo Alto because the sales tax from businesses in Palo Alto were more impacted than those statewide.



Regional Overview Chart (Economic)

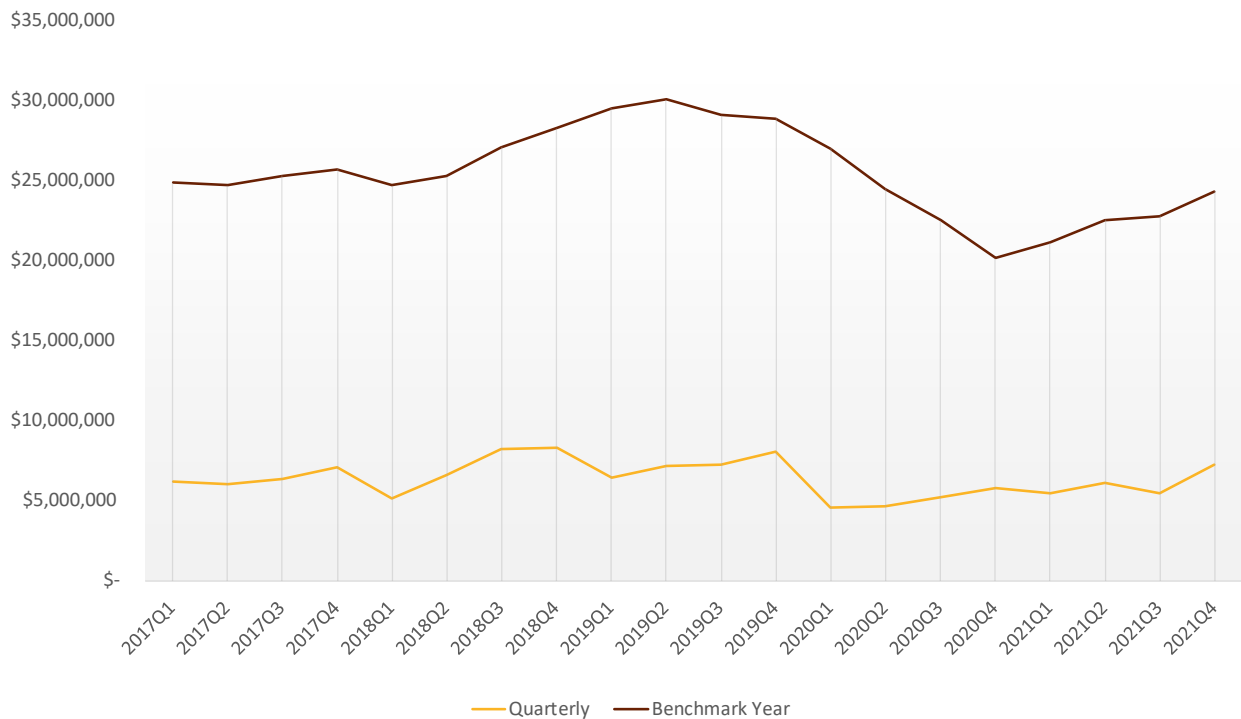
CITY OF PALO ALTO

BENCHMARK YEAR 2021Q4 COMPARED TO BENCHMARK YEAR 2020Q4

ECONOMIC CATEGORY ANALYSIS FOR YEAR ENDED 4th Quarter 2021								
% of Total / % Change	Palo Alto	California Statewide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast
General Retail	29.7 / 36.9	28.6 / 26.9	24.3 / 8.8	29.2 / 46.0	38.2 / 44.9	27.1 / 29.1	33.5 / 18.2	29.8 / 4.3
Food Products	14.8 / 29.5	19.6 / 17.6	19.9 / 4.3	15.3 / 18.5	14.0 / 21.5	21.6 / 28.4	17.9 / -6.6	16.5 / -20.8
Transportation	23.1 / 32.8	24.1 / 18.1	21.4 / 0.6	27.6 / 22.7	22.4 / 25.8	24.8 / 30.1	24.7 / -9.2	28.7 / 7.7
Business to Business	29.1 / -9.5	16.3 / 3.0	22.1 / -3.4	13.7 / 8.2	14.1 / 12.8	16.2 / 12.0	10.3 / -37.1	9.5 / 0.5
Misc/Other	25.7 / 37.0	25.1 / 17.2	22.6 / 0.1	28.7 / 22.7	23.1 / 25.4	25.9 / 29.7	25.3 / -12.7	29.5 / 8.1
Total	100.0 / 17.0	100 / 15.6	100.0 / 1.2	100.0 / 24.5	100.0 / 27.9	100.0 / 23.9	100.0 / -7.0	100.0 / -1.9
ECONOMIC SEGMENT ANALYSIS FOR YEAR ENDED 4th Quarter 2021								
	Palo Alto	California Statewide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast
Largest Segment	Leasing	Restaurants	Restaurants	Auto Sales - New	Miscellaneous Retail	Restaurants	Miscellaneous Retail	Auto Sales - New
% of Total / % Change	19.3 / 22.8	13.3 / 25.5	13.3 / 12.9	11.9 / 19.5	14.0 / 187.2	15.1 / 36.6	15.3 / 95.2	12.2 / 9.9
2nd Largest Segment	Auto Sales - New	Auto Sales - New	Auto Sales - New	Miscellaneous Retail	Department Stores	Auto Sales - New	Auto Sales - New	Department Stores
% of Total / % Change	19.2 / 31.5	11.8 / 18.6	11.1 / -3.3	10.8 / 144.8	11.0 / 11.9	12.8 / 32.5	11.5 / -1.3	11.6 / 0.1
3rd Largest Segment	Restaurants	Miscellaneous Retail	Department Stores	Restaurants	Restaurants	Department Stores	Restaurants	Restaurants
% of Total / % Change	12.9 / 34.7	8.9 / 57.8	7.5 / 6.6	10.1 / 27.3	9.2 / 28.5	8.4 / 20.4	10.7 / -5.6	10.2 / -28.8

Chart 2

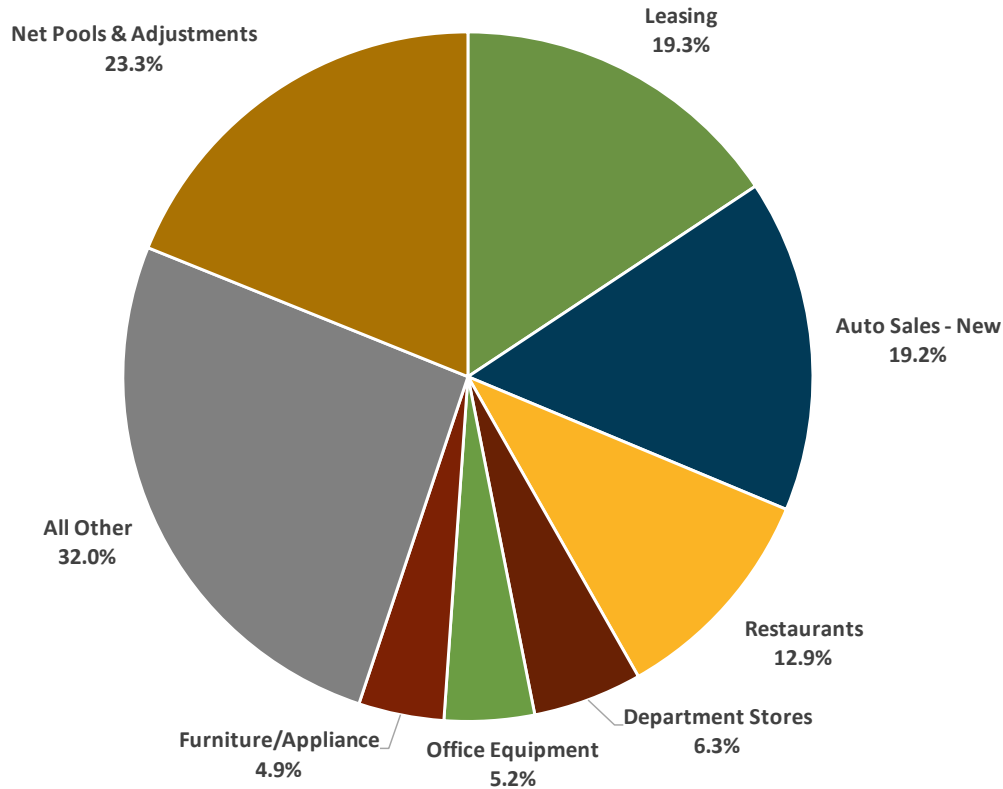
Gross Historical Sales Tax Cash Receipts by Benchmark Year and Quarter (Before Adjustments)





**Net Cash Receipts for Benchmark Year fourth Quarter 2021: \$30,029,813**

*\*Benchmark year (BMY) is the sum of the current and 3 previous quarters (2021Q4 BMY is sum of 2021 Q4, 2021 Q3, 2021 Q2, 2021 Q1)*

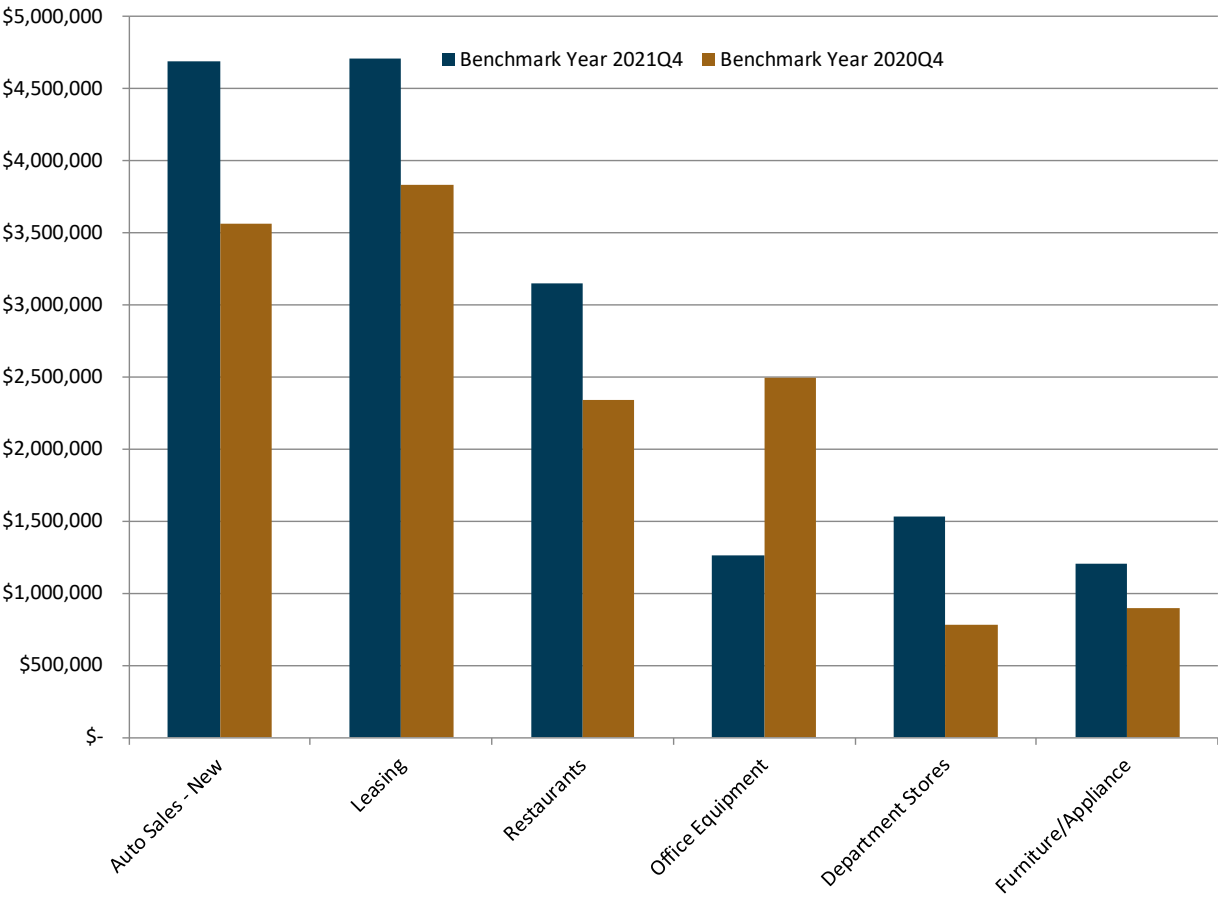
**TOP 25 SALES/USE TAX CONTRIBUTORS**

The following list identifies Palo Alto's Top 25 Sales/Use Tax contributors. The list is in alphabetical order and represents the year ended fourth quarter of 2021. The Top 25 Sales/Use Tax contributors generate 61.5% of Palo Alto's total sales and use tax revenue.

Anderson Honda	Lucile Packard Children's Hospital	Shreve & Co.
Apple Stores	Macy's Department Store	Stanford Health Care
Atila Biosystems	Magnussen's Toyota	Tesla
Audi Palo Alto	Neiman Marcus	Tesla Lease Trust
Bloomingdale's	Nordstrom Department Store	Tiffany & Company
Hengehold Trucks	Richemont	Varian Medical Systems
Hermes	Rivian Automotive	Volvo Cars Palo Alto
HP Enterprise Services	Shell Service Stations	Wilkes Bashford
Louis Vuitton		



Sales Tax from Largest Non-Confidential Sales Tax Segments (Economic)





## Historical Analysis by Calendar Quarter

Economic Category	%	2021Q4	2021Q3	2021Q2	2021Q1	2020Q4	2020Q3	2020Q2	2020Q1	2019Q4	2019Q3	2019Q2
Business To Business	21.9%	1,969,438	1,762,093	1,652,745	1,765,043	2,060,217	2,022,479	1,851,601	2,000,210	2,375,333	1,942,593	1,958,591
Miscellaneous/Other	18.7%	1,682,102	1,702,838	1,620,383	1,467,407	1,679,573	1,322,172	997,005	1,227,541	1,693,416	1,516,049	1,784,443
General Retail	25.3%	2,273,543	1,798,257	1,803,297	1,262,756	1,746,602	1,300,645	660,300	1,450,820	2,579,412	2,416,101	1,993,425
Food Products	12.0%	1,075,263	970,873	897,222	619,501	668,640	650,152	439,540	990,266	1,256,287	1,205,242	1,268,595
Subtotal Economic (Local Business)	77.8%	7,000,346	6,234,061	5,973,646	5,114,708	6,155,031	5,295,448	3,948,447	5,668,837	7,904,447	7,079,986	7,005,054
Net Pools & Adjustments	22.2%	1,995,234	539,929	1,496,795	1,675,094	1,186,152	1,227,876	1,877,921	-2,287	1,937,461	1,477,413	1,741,608
Total Cash Receipts	100.0%	8,995,580	6,773,990	7,470,441	6,789,802	7,341,183	6,523,324	5,826,368	5,666,550	9,841,908	8,557,399	8,746,661

Economic Segment	%	2021Q4	2021Q3	2021Q2	2021Q1	2020Q4	2020Q3	2020Q2	2020Q1	2019Q4	2019Q3	2019Q2
Miscellaneous/Other	44.0%	3,962,070	3,837,648	3,654,707	3,499,781	4,170,752	3,682,918	3,181,367	3,551,274	4,677,431	4,315,212	4,044,495
Restaurants	10.5%	941,683	857,066	785,086	527,203	552,176	545,728	342,533	867,027	1,105,719	1,073,522	1,123,322
Miscellaneous Retail	7.5%	676,701	407,467	456,685	327,729	479,041	326,777	108,953	280,493	499,697	384,397	392,196
Apparel Stores	6.0%	537,479	400,589	395,779	264,322	358,744	263,940	72,307	305,737	552,735	469,447	486,790
Department Stores	5.8%	525,295	388,703	384,763	237,473	315,453	186,316	29,842	245,948	552,822	431,717	453,675
Service Stations	2.1%	190,601	181,448	152,565	116,258	111,241	108,840	70,063	146,291	181,082	175,309	185,969
Food Markets	1.2%	106,315	87,521	89,669	71,321	89,396	81,580	77,803	102,026	118,952	104,192	113,363
Business Services	0.7%	60,203	73,620	54,393	70,621	78,228	99,348	65,579	170,042	216,011	126,190	205,245
Subtotal Economic (Local Business)	77.8%	7,000,346	6,234,061	5,973,646	5,114,708	6,155,031	5,295,448	3,948,447	5,668,837	7,904,447	7,079,986	7,005,054
Net Pools & Adjustments	22.2%	1,995,234	539,929	1,496,795	1,675,094	1,186,152	1,227,876	1,877,921	-2,287	1,937,461	1,477,413	1,741,608
Total Cash Receipts	100.0%	8,995,580	6,773,990	7,470,441	6,789,802	7,341,183	6,523,324	5,826,368	5,666,550	9,841,908	8,557,399	8,746,661

The chart above shows the categories and segments in quarterly economic basis amounts. The total amount is the net cash receipts, and it was obtained by adding up the categories/segments with the “Net Pools & Adjustments” amount.



## Historical Analysis by Calendar BMY from 2012Q4 to 2021Q4

Economic Category	%	2021Q4	2020Q4	2019Q4	2018Q4	2017Q4	2016Q4	2015Q4	2014Q4	2013Q4	2012Q4
Business To Business	23.7%	7,106,104	7,856,159	8,526,006	6,923,106	5,765,696	5,070,128	4,815,757	3,722,965	3,860,324	4,094,594
Miscellaneous/Other	21.4%	6,431,929	4,914,744	6,140,733	7,467,434	6,334,580	6,173,525	5,725,186	5,268,303	8,630,087	5,034,947
General Retail	24.0%	7,210,111	5,169,979	8,876,515	8,468,481	8,279,644	8,572,836	8,150,481	8,447,737	8,266,524	8,188,718
Food Products	12.0%	3,606,771	2,785,355	4,916,628	4,825,435	4,677,914	4,623,126	4,476,455	4,262,090	3,903,424	3,542,289
Subtotal Economic (Local Business)	81.1%	24,354,915	20,726,236	28,459,882	27,684,456	25,057,834	24,439,616	23,167,878	21,701,095	24,660,359	20,860,548
Net Pools & Adjustments	18.9%	5,674,899	4,631,189	6,401,242	5,764,525	4,920,201	4,009,186	3,911,397	3,894,943	3,839,994	2,821,870
Total	100.0%	30,029,813	25,357,425	34,861,123	33,448,981	29,978,035	28,448,802	27,079,275	25,596,038	28,500,353	23,682,418

Economic Segment	%	2021Q4	2020Q4	2019Q4	2018Q4	2017Q4	2016Q4	2015Q4	2014Q4	2013Q4	2012Q4
Miscellaneous/Other	49.6%	14,881,551	14,191,982	16,821,950	15,811,518	13,632,374	12,398,850	11,601,816	9,694,930	13,123,466	9,641,105
Restaurants	10.5%	3,149,808	2,337,988	4,352,825	4,232,792	4,068,940	4,022,203	3,890,586	3,788,514	3,438,420	3,085,263
Miscellaneous Retail	6.4%	1,936,333	1,203,367	1,610,503	1,671,521	1,682,467	2,314,331	1,630,021	2,084,833	1,950,685	1,851,707
Apparel Stores	5.3%	1,603,818	1,000,674	1,917,444	1,987,726	1,740,612	1,659,450	1,657,179	1,761,563	1,746,495	1,736,395
Department Stores	5.1%	1,536,282	777,559	1,795,157	1,980,748	2,066,909	2,143,430	2,366,679	2,364,487	2,449,809	2,461,177
Service Stations	2.1%	640,872	436,435	701,520	697,083	613,070	551,153	644,027	768,489	760,188	758,848
Food Markets	1.2%	360,162	357,092	443,454	468,909	504,604	506,996	504,759	417,894	414,074	410,246
Business Services	0.8%	246,088	421,139	817,028	834,159	748,857	843,203	872,811	820,385	777,222	915,807
Subtotal Economic (Local Business)	81.1%	24,354,915	20,726,236	28,459,882	27,684,456	25,057,834	24,439,616	23,167,878	21,701,095	24,660,359	20,860,548
Net Pools & Adjustments	18.9%	5,674,899	4,631,189	6,401,242	5,764,525	4,920,201	4,009,186	3,911,397	3,894,943	3,839,994	2,821,870
Total	100.0%	30,029,813	25,357,425	34,861,123	33,448,981	29,978,035	28,448,802	27,079,275	25,596,038	28,500,353	23,682,418

The chart above shows the categories and segments in benchmark year economic basis amounts. The total amount is the net cash receipts, and it was obtained by adding up the categories/segments with the “Net Pools & Adjustments” amount. Benchmark year (BMY) is the sum of the current and 3 previous quarters (2021Q4 BMY is sum of 2021 Q4, 2021 Q3, 2021 Q2, 2021 Q1).



## Quarterly Analysis by Sales Tax Category: Change from 2020Q4 to 2021Q4 (Economic)

	General Retail	Food Products	Transportation	Business to Business	Misc/Other	2021/Q Total	2020/Q Total	% Chg	Largest Gain	Second Largest Gain	Largest Decline	Second Largest Decline
Campbell	17.4%	41.1%	34.1%	-42.6%	0.0%	2,475,208	2,258,331	9.6%	Restaurants	Service Stations	Office Equipment	I.T. Infrastructure
Cupertino	20.4%	50.7%	67.9%	9.3%	-15.5%	16,786,565	15,122,688	11.0%	Office Equipment	Restaurants	Recreation Products	Bldg.Matls-Retail
Gilroy	15.6%	20.6%	57.5%	41.6%	-2.4%	4,585,528	3,690,137	24.3%	Auto Sales - New	Service Stations	Miscellaneous Other	Bldg.Matls-Retail
Los Altos	20.0%	30.4%	55.8%	-21.1%	-2.4%	652,575	513,339	27.1%	Restaurants	Service Stations	Business Services	Green Energy
Los Gatos	20.5%	26.6%	2.1%	23.3%	-23.7%	1,426,837	1,268,664	12.5%	Restaurants	Miscellaneous Retail	Auto Sales - New	Miscellaneous Other
Milpitas	43.8%	57.2%	13.0%	3.1%	19.3%	5,714,904	4,718,661	21.1%	Restaurants	Miscellaneous Retail	Office Equipment	Business Services
Morgan Hill	8.9%	54.5%	51.6%	33.3%	16.6%	2,714,872	2,004,489	35.4%	Auto Sales - New	Food Markets	Auto Parts/Repair	Food Processing Eqp
Mountain View	22.0%	32.4%	40.3%	75.6%	38.1%	5,280,198	3,878,053	36.2%	Business Services	Restaurants	Office Equipment	Biotechnology
Palo Alto	29.7%	59.8%	5.0%	3.9%	-17.5%	7,094,430	6,081,447	16.7%	Restaurants	Department Stores	Drug Stores	Bldg.Matls-Whsle
San Jose	26.2%	30.7%	20.2%	10.7%	5.5%	44,283,573	37,145,196	19.2%	Restaurants	Service Stations	Auto Sales - Used	Biotechnology
Santa Clara	34.3%	59.7%	23.3%	4.2%	33.4%	12,940,458	10,780,628	20.0%	Restaurants	I.T. Infrastructure	Electronic Equipment	Business Services
County of Santa Clara	55.3%	36.6%	-26.6%	-18.0%	5.2%	1,168,818	1,045,519	11.8%	Restaurants	Miscellaneous Retail	Misc. Vehicle Sales	Heavy Industry
Saratoga	16.3%	43.0%	56.6%	116.8%	-28.4%	277,988	200,270	38.8%	Restaurants	Service Stations	Miscellaneous Other	Electronic Equipment
Sunnyvale	35.1%	29.2%	22.6%	25.4%	15.0%	6,788,170	5,378,752	26.2%	Restaurants	Office Equipment	Leasing	Biotechnology

Unlike the chart on page one which showed a ‘benchmark year’ through fourth quarter of 2021, the chart above shows a comparison of one quarter only – fourth quarter of 2021 to fourth quarter of 2020. This chart is for local ‘brick and mortar’ businesses and it excludes county pools and adjustments.



## City of Palo Alto

## City of Palo Alto Geo Areas &amp; Citywide Chart Data: Change from 2020Q4 to 2021Q4 (Economic)

California Avenue	% CHANGE QoQ	2021Q4 QE	2020Q4 QE	21Q4 % OF TOTAL	20Q4 % OF TOTAL
FOOD PRODUCTS	87.4%	51,217	27,335	45.4%	34.8%
GENERAL RETAIL	-12.8%	24,189	27,740	21.4%	35.3%
ALL OTHER	59.3%	37,498	23,533	33.2%	29.9%
<b>TOTAL</b>	<b>43.6%</b>	<b>112,904</b>	<b>78,609</b>	<b>100.0%</b>	<b>100.0%</b>

El Camino Real and Midtown	% CHANGE QoQ	2021Q4 QE	2020Q4 QE	21Q4 % OF TOTAL	20Q4 % OF TOTAL
FOOD PRODUCTS	61.6%	146,683	90,789	42.7%	29.3%
GENERAL RETAIL	20.9%	38,322	31,707	11.2%	10.2%
ALL OTHER	-15.4%	158,265	187,075	46.1%	60.4%
<b>TOTAL</b>	<b>10.9%</b>	<b>343,271</b>	<b>309,572</b>	<b>100.0%</b>	<b>100.0%</b>

Greater Downtown	% CHANGE QoQ	2021Q4 QE	2020Q4 QE	21Q4 % OF TOTAL	20Q4 % OF TOTAL
FOOD PRODUCTS	77.9%	407,900	229,271	54.1%	46.2%
GENERAL RETAIL	37.8%	275,072	199,613	36.5%	40.2%
BUSINESS TO BUSINESS	3.0%	46,121	44,767	6.1%	9.0%
CONSTRUCTION	-1.8%	13,261	13,500	1.8%	2.7%
MISCELLANEOUS	25.5%	8,381	6,678	1.1%	1.3%
TRANSPORTATION	7.4%	3,023	2,816	0.4%	0.6%
<b>TOTAL</b>	<b>51.8%</b>	<b>753,760</b>	<b>496,646</b>	<b>100.0%</b>	<b>100.0%</b>

Stanford Shopping Center	% CHANGE QoQ	2021Q4 QE	2020Q4 QE	21Q4 % OF TOTAL	20Q4 % OF TOTAL
GENERAL RETAIL	44.7%	1,435,981	992,726	75.6%	73.8%
FOOD PRODUCTS	48.1%	149,572	100,969	7.9%	7.5%
ALL OTHER	25.2%	314,530	251,128	16.6%	18.7%
<b>TOTAL</b>	<b>41.3%</b>	<b>1,900,084</b>	<b>1,344,823</b>	<b>100.0%</b>	<b>100.0%</b>



## City of Palo Alto

## City of Palo Alto Geo Areas &amp; Citywide Chart Data: Change from 2020Q4 to 2021Q4 (Economic) Cont.

Town And Country Shopping Center	% CHANGE QoQ	2021Q4 QE	2020Q4 QE	21Q4 % OF TOTAL	20Q4 % OF TOTAL
GENERAL RETAIL	33.8%	70,291	52,524	42.3%	43.0%
ALL OTHER	37.5%	95,801	69,668	57.7%	57.0%
<b>TOTAL</b>	<b>35.9%</b>	<b>166,092</b>	<b>122,192</b>	<b>100.0%</b>	<b>100.0%</b>

All Other Geos combined with Balance of Jurisdiction	% CHANGE QoQ	2021Q4 QE	2020Q4 QE	21Q4 % OF TOTAL	20Q4 % OF TOTAL
GENERAL RETAIL	24.5%	1,908,315	1,533,120	31.8%	29.1%
BUSINESS TO BUSINESS	6.9%	1,894,775	1,772,504	31.6%	33.6%
TRANSPORTATION	4.2%	1,201,475	1,153,061	20.0%	21.9%
FOOD PRODUCTS	61.7%	892,135	551,836	14.9%	10.5%
MISCELLANEOUS	-49.8%	61,760	123,140	1.0%	2.3%
CONSTRUCTION	-71.1%	40,926	141,676	0.7%	2.7%
<b>TOTAL</b>	<b>13.7%</b>	<b>5,999,386</b>	<b>5,275,335</b>	<b>100.0%</b>	<b>100.0%</b>

All Geo Area Totals Comparison 21Q4 & 20Q4	% CHANGE QoQ	2021Q4 QE	2020Q4 QE	21Q4 % OF TOTAL	20Q4 % OF TOTAL
Balance of Jurisdiction	-6.8%	2,723,276	2,923,494	45.4%	55.4%
Stanford Shopping Center	41.3%	1,900,084	1,344,823	31.7%	25.5%
Greater Downtown	51.8%	753,760	496,646	12.6%	9.4%
El Camino Real and Midtown	10.9%	343,271	309,572	5.7%	5.9%
Town And Country Shopping Center	35.9%	166,092	122,192	2.8%	2.3%
California Avenue	43.6%	112,904	78,609	1.9%	1.5%
<b>TOTAL</b>	<b>13.7%</b>	<b>5,999,386</b>	<b>5,275,335</b>	<b>100.0%</b>	<b>100.0%</b>

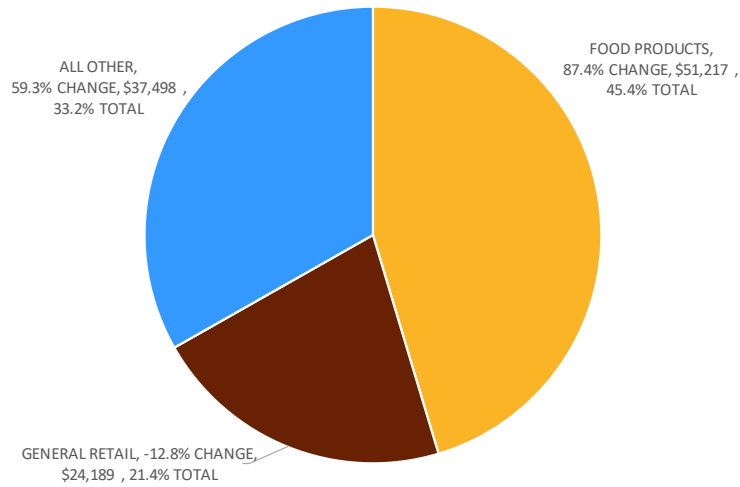
Palo Alto citywide QE 21Q4 & 20Q4	% CHANGE QoQ	2021Q4 QE	2020Q4 QE	21Q4 % OF TOTAL	20Q4 % OF TOTAL
GENERAL RETAIL	29.7%	2,273,543	1,752,309	32.0%	28.8%
BUSINESS TO BUSINESS	3.9%	2,051,897	1,975,171	28.9%	32.5%
TRANSPORTATION	5.0%	1,431,846	1,363,578	20.2%	22.4%
FOOD PRODUCTS	59.8%	1,075,263	672,939	15.2%	11.1%
MISCELLANEOUS	27.0%	216,384	170,361	3.1%	2.8%
CONSTRUCTION	-69.1%	45,498	147,089	0.6%	2.4%
<b>TOTAL</b>	<b>16.7%</b>	<b>7,094,430</b>	<b>6,081,447</b>	<b>100.0%</b>	<b>100.0%</b>



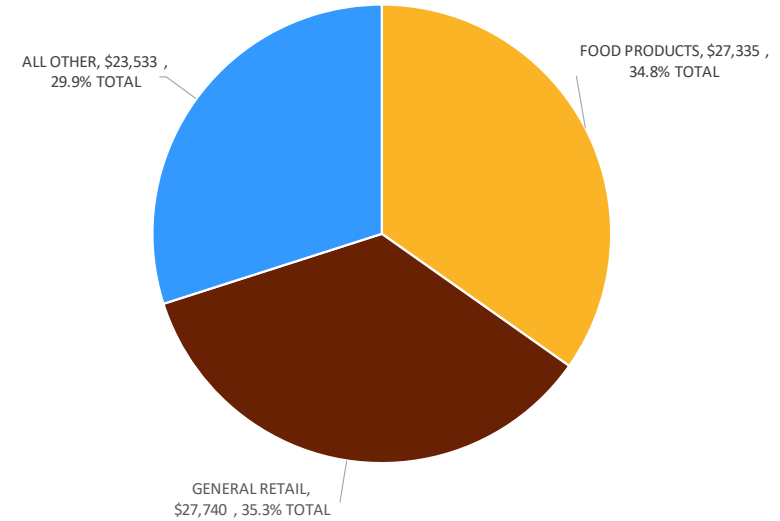
# City of Palo Alto

## City of Palo Alto Geo Area Pie Charts

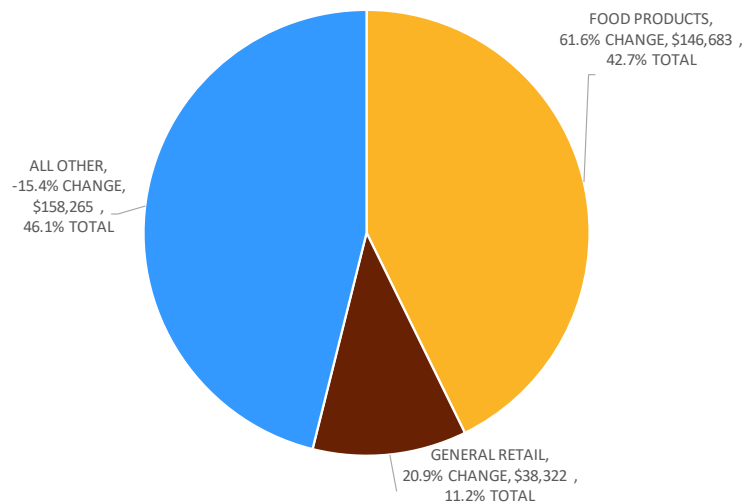
California Avenue 2021Q4 SALES TAX AMOUNTS



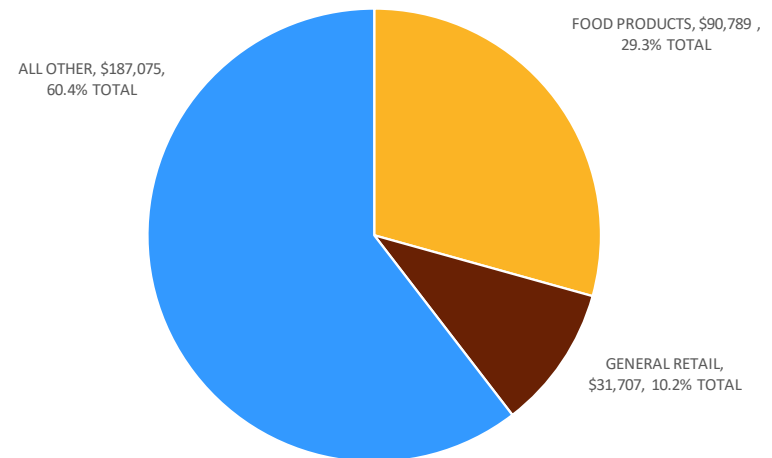
California Avenue 2020Q4 SALES TAX AMOUNTS



El Camino Real and Midtown 2021Q4 SALES TAX AMOUNTS



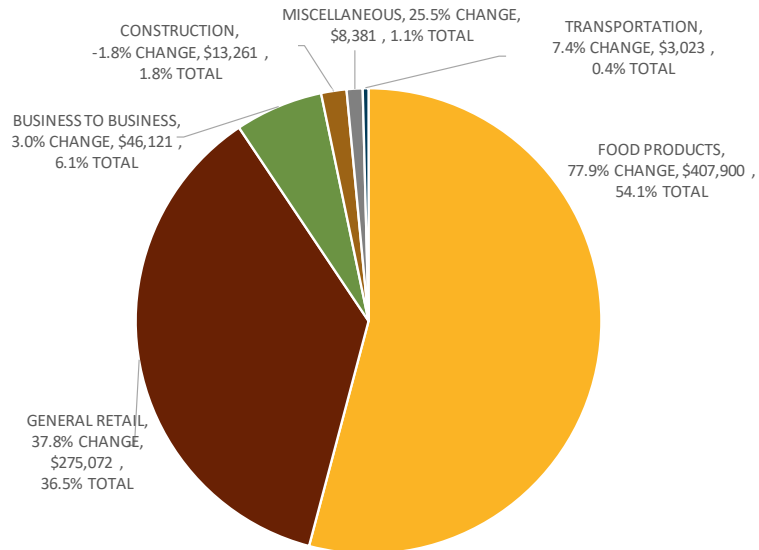
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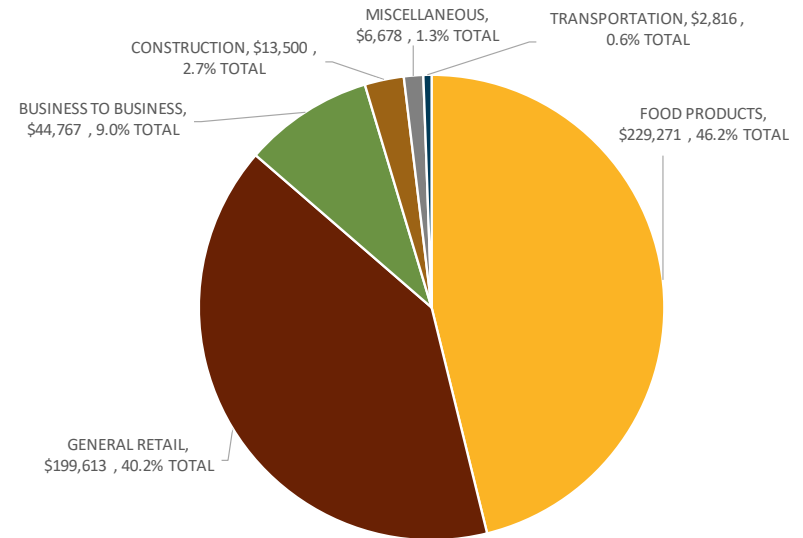


City of Palo Alto Geo Areas Pie Charts

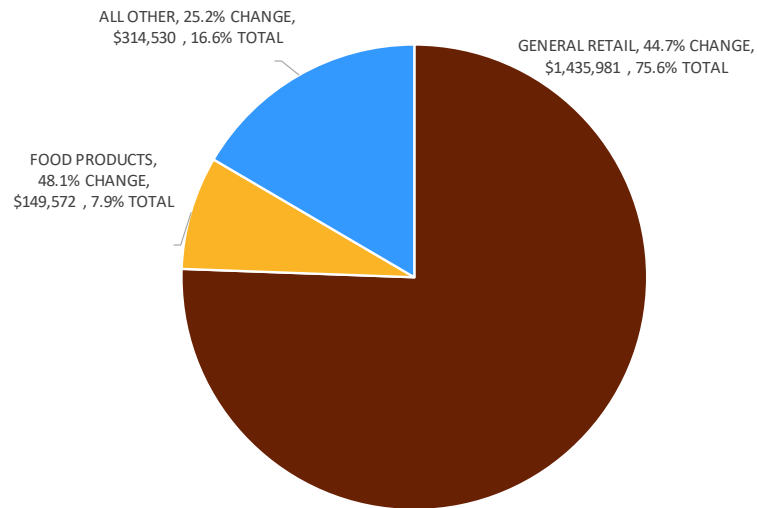
Greater Downtown 2021Q4 SALES TAX AMOUNTS



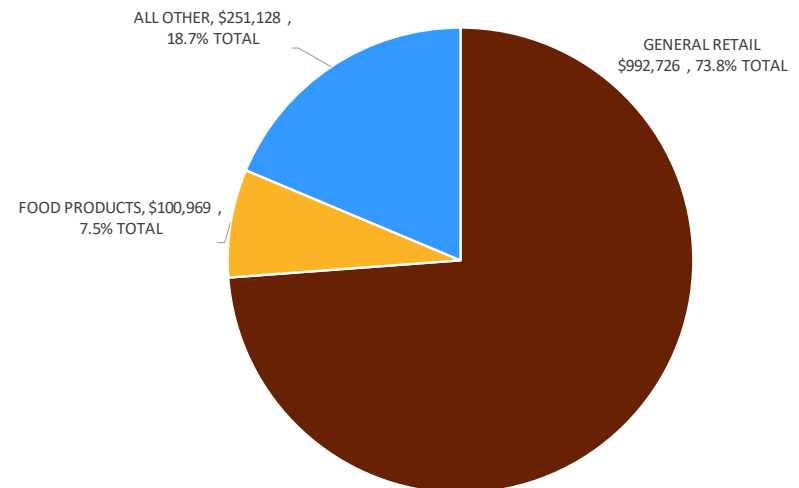
Greater Downtown 2020Q4 SALES TAX AMOUNTS



Stanford Shopping Center 2021Q4 SALES TAX AMOUNTS



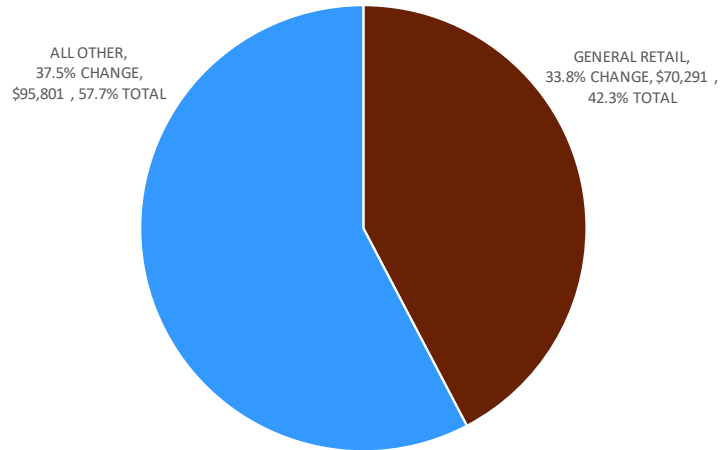
Stanford Shopping Center 2020Q4 SALES TAX AMOUNTS



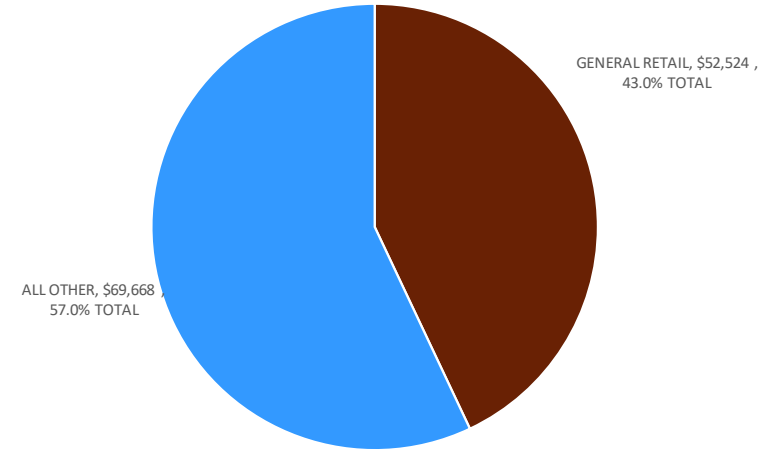


City of Palo Alto Geo Area Pie Charts

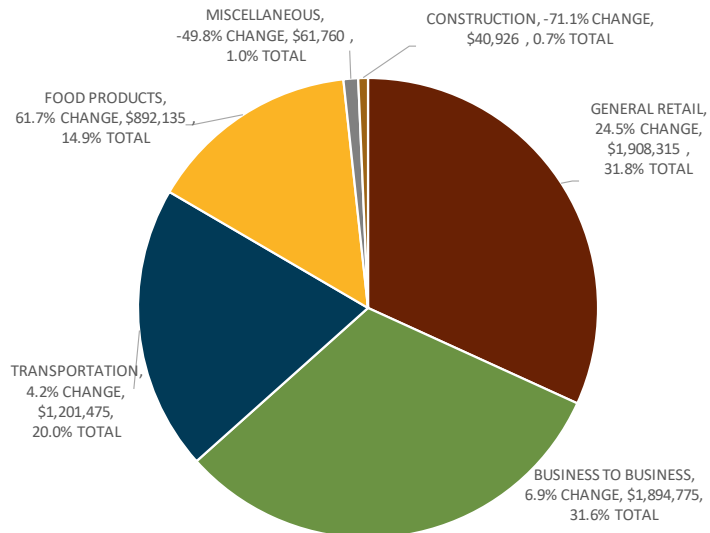
Town And Country Shopping Center 2021Q4 SALES TAX AMOUNTS



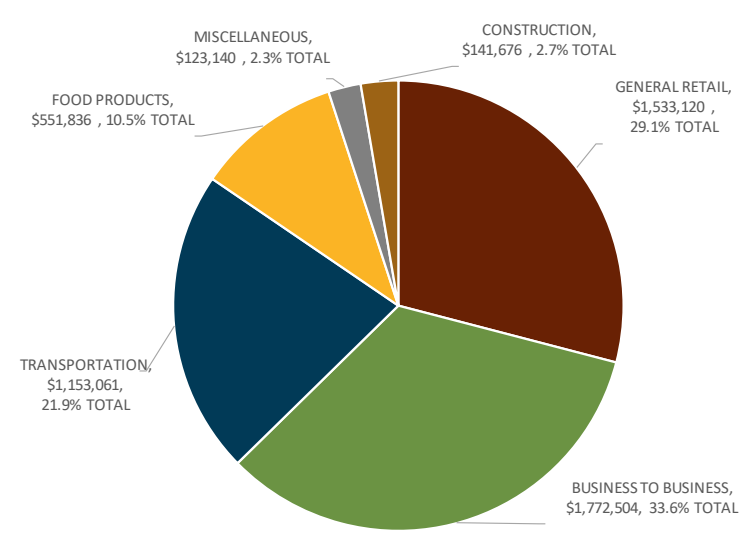
Town And Country Shopping Center 2020Q4 SALES TAX AMOUNTS



All Other Geos combined with Balance of Jurisdiction 2021Q4  
SALES TAX AMOUNTS



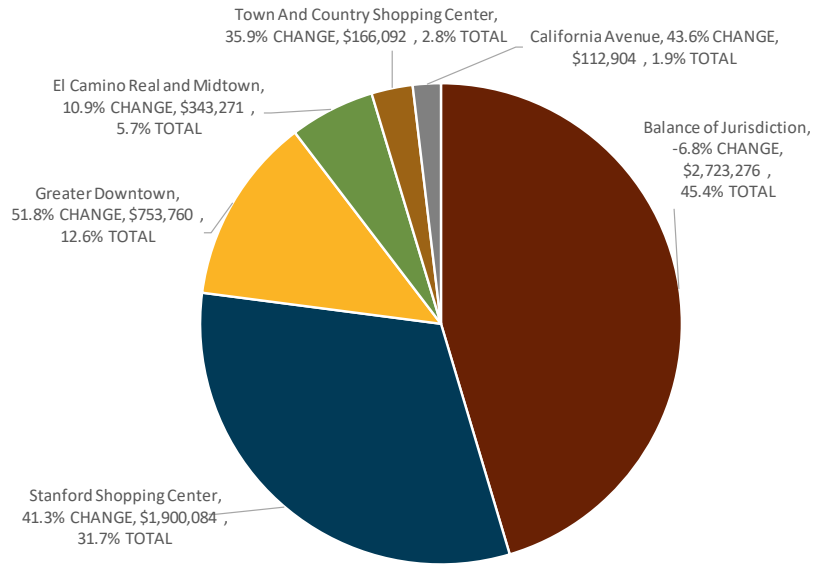
All Other Geos combined with Balance of Jurisdiction 2020Q4  
SALES TAX AMOUNTS



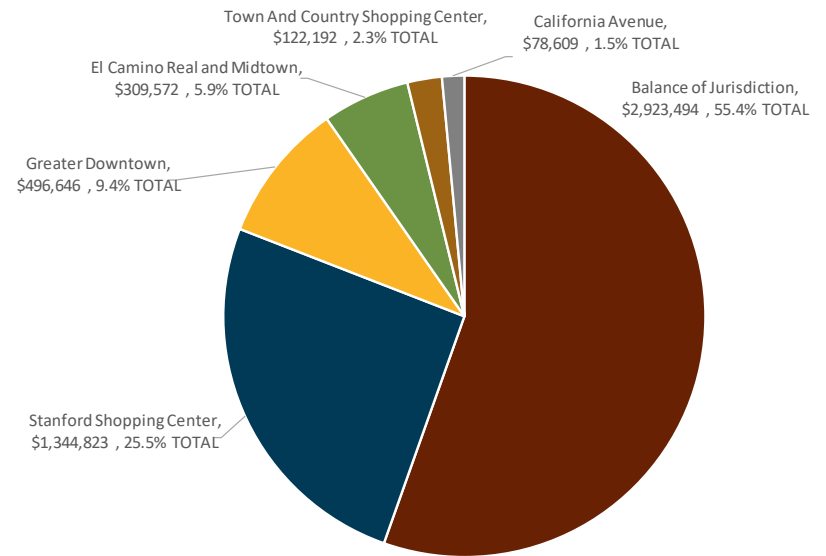


City of Palo Alto Geo Area & Citywide Pie Charts

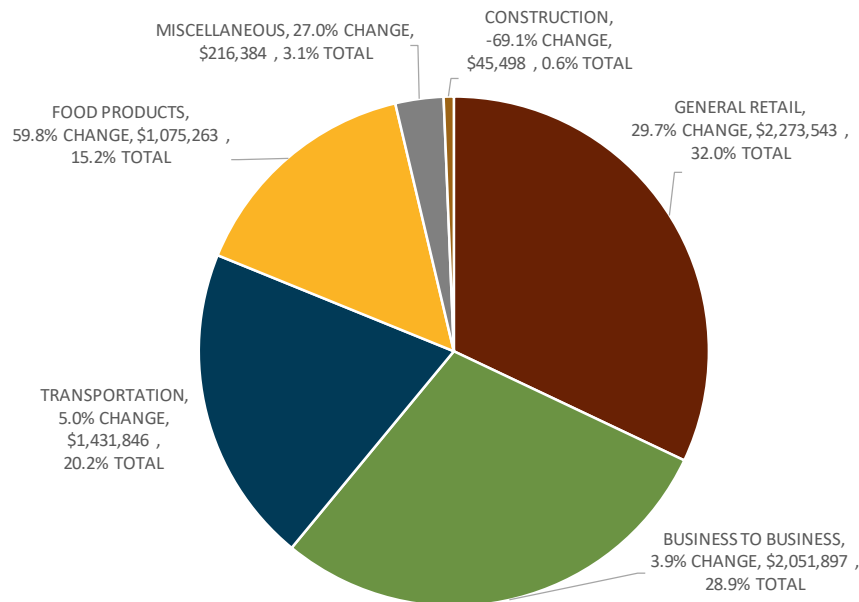
All Geo Area Totals 2021Q4 SALES TAX AMOUNTS



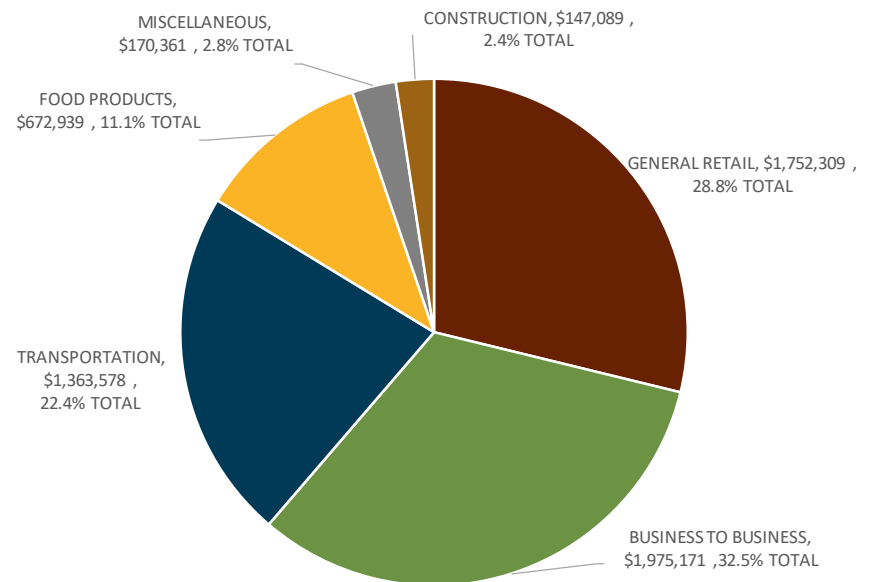
All Geo Area Totals 2020Q4 SALES TAX AMOUNTS



Palo Alto citywide 2021Q4 SALES TAX AMOUNTS



Palo Alto citywide 2020Q4 SALES TAX AMOUNTS







## California Policy Update – March 2022

We are pleased to provide our March 2022 California Policy Update. This issue includes updates on Governor Newsom's State of the State Address, the Taxpayer Protection and Government Accountability Act (currently being circulated for signatures for potential inclusion on the November 2022 Statewide ballot), and legislation by topic area that is currently going through the legislative process.

**Please feel free to contact me with any questions.**

**Fran Mancia, Vice President of Government Relations** [Fran.Mancia@AvenuInsights.com](mailto:Fran.Mancia@AvenuInsights.com)

On March 8, Governor Gavin Newsom delivered his annual State of the State Address, going through a rundown of California's successes and touting additional plans in furtherance of those accomplishments. Although distinct from his 2022-23 budget presentation, there was not much new information shared, and the speech felt akin to a pep talk or comparative analysis of California versus the nation with California coming out on top.

### Highlights from the Governor's State of the State Address by topic:

**Climate:** He began with climate policy, his proposal to pause the gas tax increase, California's dominance in electric vehicle sales and manufacturing, and tapping into lithium reserves in the Imperial Valley.

**Employment:** According to Governor Newsom, in December, 25% of America's jobs were created in California and one million over the last year. Stating that, "What makes us (California) different is as our businesses grow, we don't leave our workers behind." He noted the \$12 billion tax rebate last year, raising the minimum wage, increasing paid sick leave, expanding paid family leave, investing in childcare, and providing healthcare to all regardless of immigration status.

**COVID-19:** Although lockdowns and mask mandates were difficult, California had lower death rates than any other large state. He noted that his [SMARTER](#) Plan will assist the state through future variants and seasonal surges.

**Homelessness:** Governor Newsom's address noted that over the last three years, the state has invested billions of dollars to combat homelessness and created a [comprehensive strategy](#) moving forward. This year, the administration's proposals for [encampment resolution grants](#) and [CARE Court](#) will continue the efforts to move individuals from homelessness to housing.

**Crime:** The 2022-23 budget proposal includes \$179 million to reduce crime through local law enforcement grants, funding for the Attorney General's Office, prosecuting organized theft rings, reducing the number of illegal firearms in circulation, and investing in crime reduction programs.

**Education:** Amongst the accomplishments Governor Newsom listed were universal transitional kindergarten, before and after school programs, expanded summer school, universal school meals, child savings accounts, and free community college.



## Taxpayer Protection and Government Accountability Act

We're hearing that it's highly likely that the [Taxpayer Protection and Government Accountability Act](#), a constitutional initiative that would limit the ability for state and local governments to impose taxes, fees, and other charges will qualify for the November 2022 ballot. Currently, the campaign finance website is reflecting a donation from the Howard Jarvis Taxpayers Association of \$75,000.

The measure received an [official title and summary](#) from the Attorney General's Office, received a [fiscal analysis](#) from the Department of Finance and Legislative Analyst's Office, and has been cleared by the Secretary of State's office for circulation. To qualify for the ballot, 997,139 valid signatures are due by June 6, 2022.

## Proposed California legislation by topic:

### Administration

#### [AB 1944 \(Lee\)](#) Local government: open and public meetings

*Status:* Referred to Assembly Committee on Local Government

*Summary:* Current law, the Ralph M. Brown Act, requires, with specified exceptions, that all meetings of a legislative body of a local agency, as those terms are defined, be open and public and that all persons be permitted to attend and participate. Current law, until January 1, 2024, authorizes a local agency to use teleconferencing without complying with those specified teleconferencing requirements in specified circumstances when a declared state of emergency is in effect, or in other situations related to public health. This bill would specify that if a member of a legislative body elects to teleconference from a location that is not public, the address does not need to be identified in the notice and agenda or be accessible to the public when the legislative body has elected to allow members to participate via teleconferencing.

#### [SB 379 \(Wiener\)](#) Residential solar energy systems: permitting

*Status:* Read third time. Passed. (Ayes 31. Noes 1.) Ordered to the Assembly.

*Summary:* Current law requires a city or county to approve administratively applications to install solar energy systems through the issuance of a building permit or similar nondiscretionary permit. Current law requires every city, county, or city and county to develop a streamlined permitting process for the installation of small residential rooftop solar energy systems, as that term is defined. Current law prescribes and limits permit fees that a city or county may charge for a residential and commercial solar energy system. Current law creates the State Energy Resources Conservation and Development Commission (Energy Commission) in the Natural Resources Agency and prescribes its duties, which include administering programs for the installation of solar energy systems. This bill would require every city, county, or city and county to implement an online, automated permitting platform that verifies code compliance and issues permits in real time for a solar energy system, as defined, that is no larger than 38.4 kilowatts alternating current nameplate rating and an energy storage system, as defined, paired with a solar energy system that is no larger than 38.4 kilowatts alternating current nameplate rating.

### Broadband

#### [AB 1934 \(Rodriguez\)](#) Fairgrounds: broadband

*Status:* Awaiting referral to committee

*Summary:* Would state the intent of the Legislature to later enact legislation relating to broadband internet access at fairgrounds used, or designated for use, in emergency response operations.



## Cannabis

### **AB 2792 (Rubio, Blanca) Cannabis: excise tax: cultivation tax**

*Status:* Awaiting referral to committee

*Summary:* MAUCRSA, for purposes of the California Cannabis Equity Act, requires the Department of Cannabis Control to develop and implement a program to provide waivers and deferrals for application fees, licensing fees, and renewal fees required by MAUCRSA, as specified. This bill, from July 1, 2022, to July 1, 2025, inclusive, would prohibit the department from including any mark-up amount in the average market price in an arm's length transaction for purposes of the cannabis excise tax, and would reduce the rate of the cannabis excise tax imposed on purchasers in a non-arm's length transaction to 8%. The bill, from July 1, 2022, to July 1, 2025, inclusive, would suspend the imposition of the excise tax upon purchasers of cannabis or cannabis products sold in this state by licensees eligible for a fee waiver or deferral pursuant to the program established by the Department of Cannabis Control under the California Cannabis Equity Act.

### **SB 1074 (McGuire) Cannabis: excise tax: cultivation tax**

*Status:* Awaiting referral to committee

*Summary:* Current law requires the California Department of Tax and Fee Administration to administer and collect the taxes. Existing law requires revenues from those taxes to be deposited into the California Cannabis Tax Fund, and continuously appropriates that tax fund for specified purposes. This bill would discontinue, beginning on July 1, 2022, the imposition of the cultivation tax. The bill would increase, from July 1, 2025, until July 1, 2026, the excise tax by an additional percentage that the Department of Finance estimates will generate half the amount of revenue that would have been collected pursuant to the cultivation tax, and would, beginning July 1, 2026, instead increase the excise tax by an additional percentage estimated by the department to generate the full amount of revenue that would have been collected pursuant to the cultivation tax. This bill contains other related provisions and other existing laws.

### **SB 1281 (Bradford) Cannabis taxes**

*Status:* Awaiting referral to committee

*Summary:* Current law, the Control, Regulate and Tax Adult Use of Marijuana Act (AUMA), an initiative measure, as additionally amended by statute, imposes a weight-based cultivation tax on harvested cannabis that enters the commercial market and a separate excise tax on purchasers of cannabis or cannabis products sold in this state at the rate of 15% of the average market price of any retail sale by a cannabis retailer, as specified. Current law defines average market price in an arm's length transaction to mean the average retail price determined by the wholesale cost of the cannabis or cannabis products sold or transferred to a cannabis retailer, plus a mark-up, as determined by the California Department of Tax and Fee Administration on a biannual basis in 6-month intervals. Current law requires the distributor to collect the excise tax from the cannabis retailer and to remit the tax to the department. Current law requires revenues from the cultivation and excise taxes to be deposited into the California Cannabis Tax Fund, and continuously appropriates that tax fund for specified purposes. This bill would discontinue the imposition of the cultivation tax, would reduce the excise tax to 5%, and would remove the mark-up from the definition of average market price in an arm's length transaction. The bill would remove the requirement that the distributor collect the excise tax from the cannabis retailer and would instead require the cannabis retailer to remit the excise tax to the department. The bill would make these provisions effective beginning January 1, 2023. This bill contains other related provisions and other existing laws.



**SB 1293 (Bradford) Cannabis: taxation**

*Status:* Awaiting referral to committee

*Summary:* The Control, Regulate and Tax Adult Use of Marijuana Act (AUMA), an initiative measure approved as Proposition 64 at the November 8, 2016, statewide general election, authorizes a person who obtains a state license under AUMA to engage in commercial adult-use cannabis activity pursuant to that license and applicable local ordinances. This bill would state the intent of the Legislature to help equity licensees obtain a personal income or corporate tax credit that would be equal, or in some proportion, to the normal business expenses that they would otherwise have been able to write off on their federal taxes, but for federal law. The bill would make related legislative findings and declarations. This bill contains other existing laws.

**Economic Development****AB 151 (Committee on Budget) Economic development**

*Status:* Referred to the Senate Budget and Fiscal Review Committee

*Summary:* Would revise and recast the California Innovation Hub Program by, among other things, renaming the program as the "California Inclusive Innovation Hub Program," renaming an Innovation Hub as an "Inclusive Innovation Hub," "iHub Squared," or "iHub2," renaming the Innovation Accelerator Account as the "Inclusive Innovation Accelerator Account," and replacing GO-Biz as the government entity directly supervising the program with the Office of the Small Business Advocate (office) within GO-Biz. The bill would also provide that the office limit the iHub2s within the state to stimulating partnerships, economic development, and job creation for underserved geographic areas, industry sectors, and business owners.

**AB 1864 (Gipson) Small business**

*Status:* Awaiting referral to committee

*Summary:* Current law creates within the Governor's Office of Business and Economic Development the Office of Small Business Advocate, which is led by the Small Business Advocate, who serves as the principal advocate in the state on behalf of small businesses. This bill would state the Legislature's intent to enact legislation that would further support small businesses and local governments by incentivizing local hire, which would also retain critical revenue to assist our communities through the pandemic and onward. The bill would state related findings and declarations of the Legislature.

**AB 2035 (Villapudua) Taxation: credits: California New Employment Credit**

*Status:* Referred to the Assembly Committee on Revenue and Taxation

*Summary:* The Personal Income Tax Law and the Corporation Tax Law allow various credits against the taxes imposed by those laws, including, for taxable years beginning on or after January 1, 2014, and before January 1, 2026, a credit to a qualified taxpayer that hires a qualified full-time employee within a designated census tract or economic development area and that receives a tentative credit reservation for that qualified full-time employee. For the purposes of that credit, a qualified full-time employee is defined as an individual who meets certain requirements and satisfies at least one of two specified conditions relating to the number of hours the employee works and is paid. For purposes of that credit, certain employers that are primarily engaged in certain services, including food services, are excluded from claiming the credit. This bill would expand the definition of qualified taxpayer by permitting a taxpayer that is primarily engaged in certain services, including food services, to claim the credit. For purposes of meeting the definition of qualified full-time employee, the bill would permit, for these qualified taxpayers, an employee to be paid qualified wages by the qualified taxpayer for services not less than an average of 25 hours per week. The bill would also, among other things, define "high unemployment" for purposes of designated pilot areas.



**AB 2200 (Arambula) Online Jobs and Economic Support Resource Grant Program**

*Status:* Referred to the Assembly Committee on Jobs, Economic Development, and the Economy

*Summary:* The Economic Revitalization Act requires GO-Biz to serve as the Governor's lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, and economic growth. This bill would establish the Online Jobs and Economic Support Resource Grant Program within GO-Biz to support inclusive, cross-jurisdictional, and innovative online platforms that support job and earning opportunities and economic recovery with a strong focus on underserved and economically challenged communities.

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**Finance****SB 852 (Dodd) Climate resilience districts: formation: funding mechanisms**

*Status:* Referred to the Senate Committee on Governance & Finance

*Summary:* Current law authorizes certain local agencies to form a community revitalization authority (authority) within a community revitalization and investment area, as defined, to carry out provisions of the Community Redevelopment Law in that area for purposes related to, among other things, infrastructure, affordable housing, and economic revitalization. Current law provides for the financing of these activities by, among other things, the issuance of bonds serviced by property tax increment revenues, and requires the authority to adopt a community revitalization and investment plan for the community revitalization and investment area that includes elements describing and governing revitalization activities. This bill would authorize a city, county, city and county, special district, or a combination of any of those entities to form a climate resilience district for the purposes of raising and allocating funding for eligible projects and the operating expenses of eligible projects. The bill would define "eligible project" to mean projects that address sea level rise, extreme heat, extreme cold, the risk of wildfire, drought, and the risk of flooding, as specified.

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**Franchises****AB 676 (Holden) Franchises**

*Status:* Awaiting referral to committee in the Senate

*Summary:* The California Franchise Relations Act sets forth certain requirements related to the termination, nonrenewal, and transfer of franchises between a franchisor, subfranchisor, and franchisee, as those terms are defined. Current law provides that the act applies to any franchise when either the franchisee is domiciled in this state or the franchised business is or has been operated in this state. This bill would additionally require that any provision of a franchise agreement requiring the franchisee to waive the provisions of this chapter shall be deemed contrary to public policy and shall be void and unenforceable.

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**Housing****AB 1748 (Seyarto) Exempt surplus land: regional housing need**

*Status:* Referred to the Committees on Assembly Local Government and Housing and Community Development

*Summary:* Current law prescribes requirements for the disposal of surplus land by a local agency. Current law defines "surplus land" for these purposes to mean land owned in fee simple by any local agency for which the local agency's governing body takes formal action declaring that the land is surplus and is not necessary for the agency's use. Current law provides that an agency is not required to follow the requirements for disposal of surplus land for "exempt surplus land," except as provided. Current law categorizes as "exempt surplus land," surplus land that a local agency is transferring to another local, state, or federal agency for the agency's use. This bill would add to the definition of "exempt surplus



land," surplus land that is zoned for a density of up to 30 residential units and is owned by a city or county that demonstrates adequate progress in meeting its share of regional housing need in its annual report, as specified, has constructed an adequate number of housing units to meet its share of regional housing need in the immediately preceding or current housing element cycle, as specified, or is designated as prohousing by the department.

**AB 2179 (Grayson) Development fees and charges: deferral**

*Status:* Referred to the Committees on Assembly Local Government and Housing and Community Development

*Summary:* Current law prohibits a local agency that imposes fees or charges on a residential development for the construction of public improvements or facilities from requiring the payment of those fees or charges until the date of the final inspection or the date the certificate of occupancy is issued, whichever occurs first, except that the payment may be required sooner under specified circumstances. This bill would similarly prohibit a noncompliant local agency, as defined, that imposes any fees or charges on a qualified development, as defined, from requiring the payment of those fees or charges until 20 years from the date of the final inspection, or the date the certificate of occupancy is issued, whichever occurs first.

**AB 2357 (Ting) Surplus land**

*Status:* Referred to the Committees on Assembly Local Government and Housing and Community Development

*Summary:* Current law requires the Department of Housing and Community Development to maintain on its internet website, an up-to-date listing of all notices of availability throughout the state. This bill would also require the department to maintain on its internet website a listing of all entities, including housing sponsors, that have notified the department of their interest in surplus land for the purpose of developing low- and moderate-income housing.

**AB 2428 (Ramos) Mitigation Fee Act: fees for improvements: timeline for expenditure**

*Status:* Referred to the Committees on Assembly Local Government and Housing and Community Development

*Summary:* The Mitigation Fee Act, requires a local agency that establishes, increases, or imposes a fee as a condition of approval of a development project to, among other things, determine a reasonable relationship between the fee's use and the type of development project on which the fee is imposed. The Mitigation Fee Act also imposes additional requirements for fees imposed to provide for an improvement to be constructed to serve a development project, or which is a fee for public improvements, as specified, including that the fees be deposited in a separate capital facilities account or fund. This bill would require a local agency that requires a qualified applicant, as described, to deposit fees for improvements, as described, into an escrow account as a condition for receiving a conditional use permit or equivalent development permit to expend the fees within 5 years of the deposit.

**SB 1373 (Kamlager) Surplus land disposal**

*Status:* Referred to the Senate Committee on Governance & Finance

*Summary:* Current law prescribes requirements for the disposal of surplus land by a local agency, as defined. Current law provides that certain dispositions of real property by local agencies are subject to surplus land disposal procedures as they existed on December 31, 2019, without regard to specified amendments that took effect on January 1, 2020, if those dispositions comply with specified requirements and the disposition is completed not later than December 31, 2022. Current law extends the date that the disposition must be completed by to December 31, 2024, for specified properties, including properties related to the Metro North Hollywood Joint Development Project. Current law further extends the dates



by which the disposition of property must be completed, as specified. This bill extends the date by which the disposition of property must be completed to December 31, 2024, if the property is located in a local agency with a population of over 2,000,000 persons and the local agency has either an option agreement duly authorized by the local agency's governing body to purchase the property from the former redevelopment agency, or an exclusive negotiation agreement with a private entity to develop the subject property for economic development or housing purposes.

## Privacy & Security

### AB 1711 (Seyarto) Privacy: breach

*Status:* Referred to the Assembly Committee on Privacy and Consumer Protection

*Summary:* Current law requires an agency or a person or business that conducts business in California that owns or licenses computerized data that includes personal information to disclose a breach of security of the system following discovery or notification of the breach in the security data to certain residents of California, as specified. This bill would require an agency to post a notice on the agency's internet website when a person or business operating a system on behalf of the agency is required to issue a security breach notification for that system pursuant to the above-described provisions, as specified.

## Property Tax

### AB 1206 (Bennett) Property taxation: affordable housing: welfare exemption

*Status:* Awaiting referral to committee in the Senate

*Summary:* Current property tax law, in accordance with the California Constitution, provides for a "welfare exemption" for property used exclusively for religious, hospital, scientific, or charitable purposes and that is owned or operated by certain types of nonprofit entities, if certain qualifying criteria are met. For the 2018–19 fiscal year through the 2027–28 fiscal year, in the case of an owner of property receiving a low-income housing tax credit under specified federal law, current property tax law requires that a unit continue to be treated as occupied by a lower income household for these purposes if the occupants were lower income households on the lien date in the fiscal year in which their occupancy of the unit commenced and the unit continues to be rent restricted, notwithstanding an increase in the income of the occupants of the unit to 140% of area median income, adjusted for family size. This bill, for the 2022–23 fiscal year through the 2027–28 fiscal year, would require that a unit continue to be treated as occupied by a lower income household, as described above, if the owner is a community land trust whose land is leased to low-income households, subject to a contract that complies with specified requirements.

### AB 1707 (Boerner Horvath) Property tax postponement: Senior Citizens and Disabled Citizens Property Tax Postponement Fund

*Status:* Referred to the Assembly Committee on Revenue & Taxation

*Summary:* Current law authorizes the Controller, upon approval of a claim for the postponement of ad valorem property taxes, to directly pay a county tax collector for the property taxes owed by the claimant, as provided. Existing law establishes the Senior Citizens and Disabled Citizens Property Tax Postponement Fund and continuously appropriates moneys in the fund to the Controller for specified purposes, including disbursements relating to the postponement of property taxes pursuant to the Property Tax Postponement Law. Current law requires the Controller to, on June 30, 2018, and on June 30 each year thereafter, transfer any moneys in the fund in excess of \$15,000,000 to the General Fund. The bill would require money to be transferred, on June 30, 2023, and on June 30 each year thereafter, from the General Fund to the Senior Citizens and Disabled Citizens Property Tax Postponement Fund when the balance in the latter fund is less than \$15,000,000. The bill would require the amount of money transferred each year to be equal to the sum needed to bring the balance of the Senior Citizens and Disabled Citizens Property Tax Postponement Fund to \$15,000,000.



**AB 1839** (Choi) Property tax: tax-defaulted property sales

*Status:* Referred to the Assembly Committee on Revenue & Taxation

*Summary:* Current law governs the sale to certain entities of a property that has been tax defaulted for 5 years or more, or 3 years or more, as applicable, in an applicable county, including by authorizing the state, county, any revenue district the taxes of which on the property are collected by county officers, or a redevelopment agency created pursuant to the California Community Redevelopment Law, to purchase the property or any part thereof, as prescribed. Current law also authorizes a nonprofit organization to purchase, with the approval of the board of supervisors of the county in which it is located, a residential or vacant property that has been tax-defaulted for 5 years or more, or 3 years or more if the property is subject to a nuisance abatement lien, as prescribed. Current law requires the sales price of a property sold pursuant to the provisions described or referenced above to include certain amounts, including all defaulted taxes and assessments and all associated penalties and costs. This bill would require the sales price of a property sold pursuant to those provisions to additionally include, only if the property is exempt from property taxation, an amount sufficient to fairly compensate, for the equity lost, any person with title of record to all or any portion of the property before the recordation of the tax deed to the purchaser.

**AB 1933** (Friedman) Property taxation: welfare exemption: nonprofit corporation: low- and moderate-income families

*Status:* Referred to the Assembly Committees on Revenue & Taxation and Housing and Community Development

*Summary:* Current property tax law, in accordance with the California Constitution, provides for a "welfare exemption" for property used exclusively for religious, hospital, scientific, or charitable purposes and that is owned or operated by certain types of nonprofit entities, if certain qualifying criteria are met. Current property tax law states that property is within that welfare exemption if the property is owned and operated by a nonprofit corporation, otherwise qualifying for the welfare exemption, that is organized and operated for the specific and primary purpose of building and rehabilitating single or multifamily residences for sale at cost to low-income families, with financing in the form of a zero interest rate loan and without regard to religion, race, national origin, or the sex of the head of household. This bill would also provide that property is fully exempt from property taxation and is also within that welfare exemption if that property is owned and operated by a nonprofit corporation, as described, that is organized and operated for the specific and primary purpose of building and rehabilitating single or multifamily residential units and the units meet specified requirements.

**AB 2258** (Wood) Property Assessed Clean Energy program: wildfire safety improvements

*Status:* Referred to the Assembly Committees on Local Government and Banking & Finance

*Summary:* Would authorize a public agency that has established a PACE program, as specified, to enter into voluntary contractual assessments with property owners to finance the installation of wildfire safety improvements, as defined, that are permanently fixed to real property and would provide that wildfire resiliency and safety improvements that contribute to the defensible space Zones 1 and 2 of a property, as specified, are wildfire safety improvements for purposes of those provisions.

**AB 2651** (Petrie-Norris) Property taxes: welfare exemption: community land trust

*Status:* Referred to the Assembly Committee on Revenue & Taxation

*Summary:* Current law provides that property is within the welfare exemption if that property is owned by a community land trust, as defined, otherwise qualifying for the welfare exemption, and specified conditions are met, including that the property is being or will be developed or rehabilitated as housing, as specified. Current law requires the exemption to apply for 5 lien dates, as provided. Current law requires the community land trust to be liable for property tax for the years for which the property was exempt if



the property was not developed or rehabilitated, or if the development or rehabilitation is not in the course of construction, within a specified timeframe, depending on when the community land trust acquired the property. Current law requires the community land trust to notify the assessor if property owned by the community land trust is not in the course of construction by these dates. Existing law repeals these provisions on January 1, 2025. This bill would extend the operation of these provisions until January 1, 2030.

## **Sales and Use Taxes**

### **AB 1623 (Ramos) Personal income taxes: exclusion: uniformed services retirement pay: survivor benefit plan payments**

*Status:* Referred to the Assembly Committee on Revenue & Taxation *Summary:* The Personal Income Tax Law imposes a tax on individual taxpayers measured by the taxpayer's taxable income for the taxable year, but excludes certain items of income from the computation of tax, including an exclusion for combat-related special compensation. This bill, for taxable years beginning on or after January 1, 2023, and before January 1, 2033, would exclude from gross income retirement pay received by a taxpayer from the federal government for service performed in the uniformed services, as defined, during the taxable year. The bill, for taxable years beginning on or after January 1, 2023, and before January 1, 2023, would also exclude from gross income annuity payments received by a qualified taxpayer, as defined, pursuant to a United States Department of Defense Survivor Benefit Plan during the taxable year. The bill would make related findings and declarations. This bill contains other related provisions and other existing laws.

### **AB 1702 (Levine) Sales and Use Tax Law: exemptions: COVID-19 prevention and response goods**

*Status:* Referred to the Assembly Committee on Revenue & Taxation *Summary:* Current sales and use tax laws impose taxes on retailers measured by the gross receipts from the sale of tangible personal property sold at retail in this state, or on the storage, use, or other consumption in this state of tangible personal property purchased from a retailer for storage, use, or other consumption in this state, and provides various exemptions from the taxes imposed by those laws. This bill would exempt from those taxes, until January 1, 2025, the gross receipts from the sale of, and the storage, use, or other consumption of, COVID-19 prevention and response goods, as defined.

### **AB 1951 (Grayson) Sales and use tax: exemptions: manufacturing**

*Status:* Referred to the Assembly Committee on Revenue & Taxation *Summary:* Current sales and use tax laws impose taxes on retailers measured by the gross receipts from the sale of tangible personal property sold at retail in this state, or on the storage, use, or other consumption in this state of tangible personal property purchased from a retailer for storage, use, or other consumption in this state. The Sales and Use Tax Law provides various exemptions from those taxes, including a partial exemption from those taxes, on and after July 1, 2014, and before July 1, 2030, for the gross receipts from the sale of, and the storage, use, or other consumption of, qualified tangible personal property purchased by a qualified person for purchases not exceeding \$200,000,000, for use primarily in manufacturing, processing, refining, fabricating, or recycling of tangible personal property, as specified; qualified tangible personal property purchased for use by a qualified person to be used primarily in research and development, as provided; qualified tangible personal property purchased for use by a qualified person to be used primarily to maintain, repair, measure, or test any qualified tangible personal property, as provided; and qualified tangible personal property purchased by a contractor purchasing that property for use in the performance of a construction contract for the qualified person, that will use that property as an integral part of specified processes. Current law, on and after January 1, 2018, and before July 1, 2030, additionally exempts from those taxes the sale of, and the storage, use, or other consumption of, qualified tangible personal property purchased for use by a qualified person to be used primarily in the generation or



production, as defined, or storage and distribution, as defined, of electric power. Current law does not apply this exemption to an apportioning trade or business, as specified. Existing law provides that qualified tangible personal property does not include consumables with a useful life of less than one year. This bill would recast and restate these provisions to clarify the application of the exemption provided and update certain definitions to correspond to current federal guidelines.

**AB 2622 (Mullin) Sales and use taxes: exemptions: California Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project: transit buses.**

*Status:* Referred to the Assembly Committee on Revenue & Taxation *Summary:* Current state sales and use tax laws impose a tax on retailers measured by the gross receipts from the sale of tangible personal property sold at retail in this state or on the storage, use, or other consumption in this state of tangible personal property purchased from a retailer for storage, use, or other consumption in this state. The Sales and Use Tax Law provides various exemptions from those taxes, including, until January 1, 2024, an exemption from those taxes with respect to the sale in this state of, and the storage, use, or other consumption in this state of, specified zero-emission technology transit buses sold to specified public agencies that are eligible for specified incentives from the State Air Resources Board. This bill would extend the exemption for specified zero-emission technology transit buses until January 1, 2034.

**AB 2835 (Fong) Sales and use taxes: exemptions: nonprofit blood centers**

*Status:* Awaiting referral to committee

*Summary:* The Sales and Use Tax Law provides various exemptions from that tax. This bill would exempt, on and after January 1, 2023, from sales and use tax the sale of tangible personal property to, or the use of tangible personal property by, a nonprofit organization that recruits blood donors, and is a member of an organization promoting blood banking services, as specified.

**ACA 5 (Voepel) Motor vehicles: fuel taxes, sales and use taxes, and fees: expenditure restrictions**

*Status:* Referred to the Assembly Committee on Transportation

*Summary:* The California Constitution restricts the expenditure of revenues from taxes imposed by the state on fuels used in motor vehicles upon public streets and highways to street and highway and certain mass transit purposes. These restrictions do not apply to revenues from taxes or fees imposed under the Sales and Use Tax Law or the Vehicle License Fee Law. This measure would explicitly restrict the expenditure of all interest earned and other increment derived from the investment of those tax revenues and any proceeds from the lease or sale of real property acquired using those tax revenues only for the purposes described above.

**SB 542 (Limón) Sales and use taxes: exemption: medium- or heavy-duty zero-emission trucks**

*Status:* Awaiting referral to committee in the Assembly

*Summary:* Current sales and use tax laws impose taxes on retailers measured by gross receipts from the sale of tangible personal property sold at retail in this state, or on the storage, use, or other consumption in this state of tangible personal property purchased from a retailer for storage, use, or other consumption in this state, measured by sales price. The Sales and Use Tax Law provides various exemptions from those taxes. This bill would provide an exemption from those taxes with respect to the sale in this state of, and the storage, use, or other consumption in this state of, a qualified motor vehicle. The bill would define "qualified motor vehicle" as a specified zero-emission truck. The bill would disallow the exemption for sales or uses made on or after January 1, 2025, if the purchaser also received other specified benefits.



**SB 771 (Becker) Sales and Use Tax Law: zero emissions vehicle exemption**

*Status:* Awaiting referral to committee in the Assembly

*Summary:* Current state sales and use tax laws impose a tax on retailers measured by the gross receipts from the sale of tangible personal property sold at retail in this state or on the storage, use, or other consumption in this state of tangible personal property purchased from a retailer for storage, use, or other consumption in this state. The Sales and Use Tax Law provides various exemptions from those taxes. This bill, on or after January 1, 2022, would provide an exemption from those taxes with respect to the sale in this state of, and the storage, use, or other consumption in this state of, a qualified motor vehicle, as defined, sold to a qualified buyer, as defined. The bill would provide that this exemption does not apply to specified state sales and use taxes from which the proceeds are deposited into the Local Revenue Fund, the Local Revenue Fund 2011, or the Local Public Safety Fund.

**SB 1041 (Atkins) Sales and use taxes: general exemptions**

*Status:* Awaiting referral to committee in the Senate

*Summary:* The Sales and Use Tax Law provides various exemptions from those taxes, including an exemption for the sale of, or the storage, use, or consumption of, tangible personal property sold by a thrift store located on a military installation and operated by a designated entity, as defined, that, in partnership with the United States Department of Defense, provides financial, educational, and other assistance to members of the Armed Forces of the United States, eligible family members, and survivors that are in need. Existing law provides that this exemption will remain in effect only until January 1, 2024. This bill would remove the exemption's expiration date.

**SB 1312 (Ochoa Bogh) Marketplace facilitators: passenger vehicle rental companies: tax and fee liability relief**

*Status:* Referred to the Senate Governance & Finance Committee

*Summary:* Current law, the Fee Collection Procedures Law, provides for the administration and collection of various fee programs and was originally administered by the State Board of Equalization. In 2017, the California Department of Tax and Fee Administration was established, and current law transferred many of the tax and fee administration duties, powers, and responsibilities of the board to the department. This bill would also relieve a marketplace facilitator of liability for the taxes or fees on a retail sale if the marketplace facilitator demonstrates to the satisfaction of the department that the marketplace seller is an unrelated passenger vehicle rental company and is registered to remit sales and use tax to the department.

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**Short-Term Rentals****AB 2328 (Flora) Local ordinances: home experience sharing**

*Status:* Referred to the Assembly Committees on Local Government and Judiciary

*Summary:* Current law defines "hosting platform" as a marketplace that is created for the primary purpose of facilitating the rental of a residential unit, as specified. This bill would prohibit a city or county from prohibiting or effectively prohibiting the use of property as a home experience sharing unit. The bill would define "home experience sharing unit" as a privately owned, noncommercial property or residential dwelling unit that is rented partially for a fee for a period of fewer than 18 continuous hours and that does not provide sleeping accommodations to transients. The bill would authorize a city or county to reasonably regulate home experience sharing units to protect the public's health and safety, as specified.

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## **Taxation**

### **AB 1626 (Nguyen) Motor Vehicle Fuel Tax Law: limitation on adjustment**

*Status:* Awaiting referral to committee

*Summary:* Existing law, the Motor Vehicle Fuel Tax Law, administered by the California Department of Tax and Fee Administration, imposes a tax upon each gallon of motor vehicle fuel removed from a refinery or terminal rack in this state, entered into this state, or sold in this state, at a specified rate per gallon. Existing law requires the department to annually adjust the tax imposed by increasing the rates based on the California Consumer Price Index, as specified. This bill would limit the above-described annual adjustment to a maximum of 2% for rate adjustments made on or after July 1, 2023.

### **AB 1638 (Kiley) Motor Vehicle Fuel Tax Law: suspension of tax**

*Status:* Awaiting referral to committee

*Summary:* Would suspend the imposition of the tax on motor vehicle fuels for 6 months. The bill would direct the Controller to transfer a specified amount from the General Fund to the Motor Vehicle Fuel Account in the Transportation Tax Fund. By transferring General Fund moneys to a continuously appropriated account, this bill would make an appropriation.

### **AB 1708 (Kiley) Law enforcement: sharing data**

*Status:* Referred to the Assembly Revenue & Taxation Committee

*Summary:* Current law prohibits a law enforcement official from cooperating with immigration authorities where individuals were arrested, detained, or convicted of misdemeanors that were previously felonies or were previously crimes punishable as either misdemeanors or felonies, as specified. Current law prohibits the Department of Corrections and Rehabilitation from taking into account an individual's citizenship or immigration status in regard to access to educational or rehabilitative programming or credit-earning opportunities or to determining an individual's custodial classification level. This bill would remove these restrictions on state and local law enforcement agencies.

### **AB 1729 (Voepel) Personal income taxes: gross income: exclusion: student loan assistance**

*Status:* Referred to the Assembly Revenue & Taxation Committee

*Summary:* The Personal Income Tax Law excludes from the gross income of an employee amounts paid or incurred by an employer for educational assistance to the employee, as specified, up to \$5,250 during a calendar year. This bill would exclude from the gross income of an employee amounts, not exceeding an aggregate amount of \$5,250 per year, that are paid or incurred by an employer on or after January 1, 2021, and before January 1, 2026, for the payment of principal or interest on a qualified education loan, as defined, incurred by the employee.

### **SB 49 (Umberg) Income taxes: credits: California Fair Fees Tax Credit**

*Status:* Awaiting referral to committee

*Summary:* The Personal Income Tax Law and the Corporation Tax Law allow various credits against the taxes imposed by those laws. This bill would allow a credit against those taxes for each taxable year beginning on or after January 1, 2021, and before January 1, 2026, to a taxpayer that meets certain criteria, including that the taxpayer temporarily ceased business operations for at least 30 consecutive days during the taxable year in response to an emergency order, as defined. The amount of credit would vary based on the number of consecutive days the qualified taxpayer has ceased business operations during the taxable year, with a maximum amount of \$6,000 if the qualified taxpayer has temporarily ceased business operations for at least 180 consecutive days, as provided.





## City of Palo Alto City Council Staff Report

(ID # 13624)

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**Meeting Date:** 5/2/2022

**Report Type:** Information Reports

**Title:** Investment Activity Report for the Third Quarter, Fiscal Year 2022

**From:** City Manager

**Lead Department:** Administrative Services

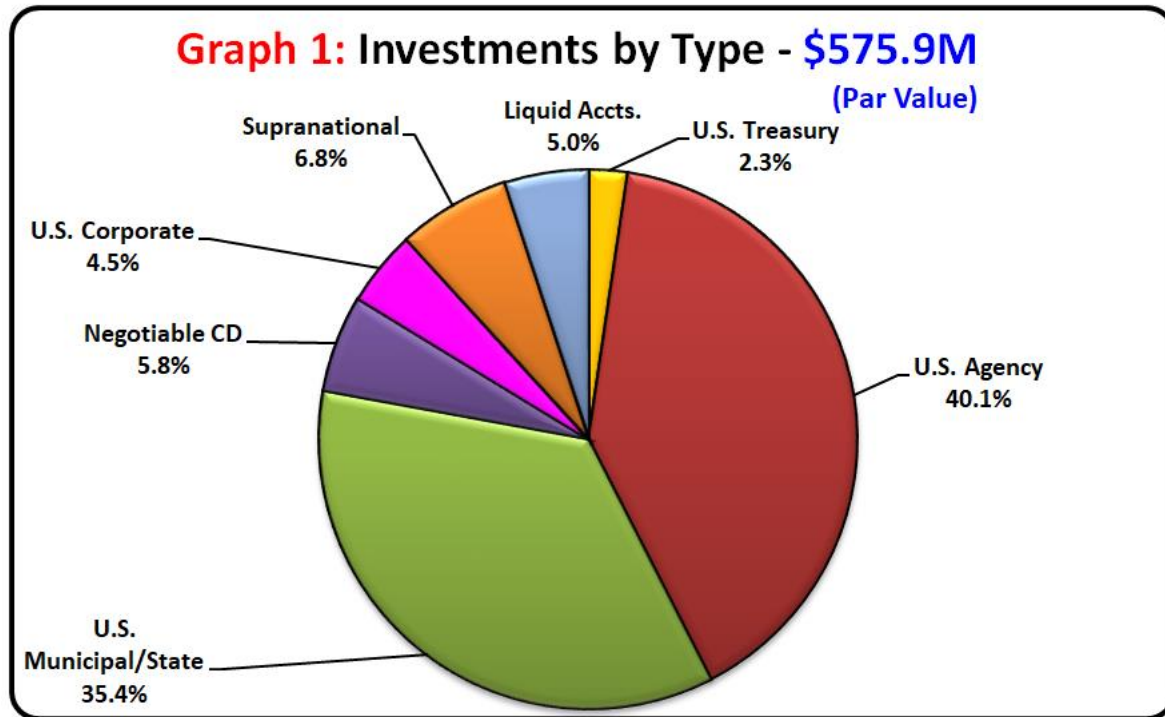
### Background

The City's [Investment Policy](#) requires that staff report to Council quarterly on the City's portfolio composition and performance compared to the Council-adopted policy; discuss overall compliance with the City's Investment Policy; and provide recommendations, if any, for policy changes. In addition, staff provides a detailed list of all securities and report on the City's ability to meet expenditure requirements over the next six months. This report is to inform Council of the City's investment portfolio performance as of the third quarter ending March 31, 2022 and to disclose staff's cash flow projections for the next six months.

### Discussion

The City's investment portfolio is summarized in Graph 1 and detailed in the Investments by Fund Report (Attachment B). The Investments by Fund Report groups the portfolio's securities by investment type and includes details of the investment issuer, date of maturity, current market value, the book and face (par) value, and the weighted average maturity of each type of investment and of the entire portfolio.





*Due to rounding, the above graph's percentage total is less than 100 percent*

The par value of the City's portfolio is \$575.9 million; in comparison, last quarter it was \$553.8 million. The \$22.1 million portfolio growth since the last quarter results from expected and typical timing of cash flows. Contributing factors to these cashflow trends reflect variables including the impact of an extra pay period in the second quarter reflecting lower payroll costs in the third quarter and the receipt of annual property tax proceeds.

The portfolio consists of \$28.9 million in liquid accounts and \$547.0 million in various investment types as detailed in the following Table 1. The investment policy requires that at least \$50 million be maintained in securities maturing in less than two years. The portfolio includes \$111.6 million in investments maturing in less than two years, comprising 19.4 percent of the City's investment portfolio. In addition, the Investment Policy allows up to 30 percent of the portfolio to be invested in securities with maturities beyond five years. The actual at the end of the second quarter is 29.4 percent of the portfolio.



<b>Table 1:</b>  Investment Type	FY 2022 Q3 Maturities - Par Value (millions)						
	Up to 1 Year	1 to 2 Years	2 to 3 Years	3 to 5 Years	Over 5 Years	Portfolio Total *	% of Portfolio
U.S. Treasury	\$ 9.0	\$ -	\$ -	\$ 4.5	\$ -	\$ 13.5	2.3%
U.S. Agency Bonds	40.7	9.2	10.4	80.1	90.7	231.1	40.1%
U.S. Municipal/ State Bonds	15.8	12.3	21.9	80.8	73.0	203.8	35.4%
Negotiable Certificates of Deposits (NCD)	10.0	5.2	6.4	8.4	3.5	33.5	5.8%
U.S. Corporate Bonds	-	5.4	3.0	15.7	2.0	26.1	4.5%
Supranational Organizations Bonds	3.0	1.0	1.0	34.0	-	39.0	6.8%
Liquid Accounts (LAIF & Fidelity)	28.9	-	-	-	-	28.9	5.0%
<b>Grand Total</b>	<b>\$ 107.4</b>	<b>\$ 33.1</b>	<b>\$ 42.7</b>	<b>\$ 223.5</b>	<b>\$ 169.2</b>	<b>\$ 575.9</b>	<b>100%</b>
<b>% of Portfolio</b>	<b>18.7%</b>	<b>5.7%</b>	<b>7.4%</b>	<b>38.8%</b>	<b>29.4%</b>	<b>100.0%</b>	

\* \$79.1 million or 13.8 percent are in investments that support Environmental, Social, and Governance (ESG) Activities (aka "Green", local banks, and Supranational Bonds)

The current market value of the portfolio is 95.8 percent of the book value. The market value of securities fluctuates, depending on how interest rates perform. When interest rates decrease, the market value of the securities in the City's portfolio will likely increase; likewise, when interest rates increase, the market value of the securities will likely decrease. Understanding and showing market values is not only a reporting requirement, but essential to knowing the principal risks in actively buying and selling securities. It is important to note, however, that the City's practice is to buy and hold investments until they mature so changes in market price do not affect the City's investment principal. As a result, there's no risk of principal loss due to the declining market value. The market valuation is provided by U.S. Bank, which is the City's safekeeping agent. The average life to maturity of the investment portfolio is 4.12 years compared to 4.28 years last quarter.



### Investments Made During the Third Quarter

During the third quarter, \$17.7 million of securities with an average yield of 2.0 percent matured. During the same period, per the following Table 2, securities totaling \$27.6 million with an average yield of 2.0 percent were purchased. As expected, as interest rates slowly rose on new investments, the City's portfolio's average yield plateaued in this and the prior few quarters and the portfolio's average yield is expected to eventually rise. In the prior two fiscal years or during the height of the COVID-19 economic closures, the portfolio's interest rate had steadily declined. The City's short-term money market and pool account increased by \$12.2 million compared to the second quarter of Fiscal Year 2022. Staff continually monitors the City's short-term cash flow needs and adjusts liquid funds to meet them.

<b>Table 2:</b>	<b>FY 2022 Q3 Security Purchases - Par Value (millions)</b>						
	<b>Up to 1 Year</b>	<b>1 to 2 Years</b>	<b>2 to 3 Years</b>	<b>3 to 5 Years</b>	<b>Over 5 Years</b>	<b>Portfolio Total *</b>	<b>% of Purchase</b>
<b>Investment Type</b>							
U.S. Treasury	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.0%
U.S. Agency Bonds	-	-	-	6.0	-	6.0	21.7%
U.S. Municipal/ State Bonds	-	-	0.5	6.3	4.8	11.6	42.1%
Negotiable Certificates of Deposits (NCD)	-	-	-	1.0	0.2	1.2	4.5%
U.S. Corporate Bonds	-	-	-	1.8	2.0	3.8	13.6%
Supranational Organizations Bonds	-	-	1.0	4.0	-	5.0	18.1%
<b>Grand Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1.5</b>	<b>\$ 19.1</b>	<b>\$ 7.0</b>	<b>\$ 27.6</b>	<b>100%</b>
<b>% of Purchase</b>	<b>0.0%</b>	<b>0.0%</b>	<b>5.4%</b>	<b>69.0%</b>	<b>25.6%</b>	<b>100.0%</b>	

\* \$6.4 million or 23.4 percent are in investments that support Environmental, Social, and Governance (ESG) Activities (aka "Green", local banks, and Supranational Bonds)

### Availability of Funds for the Next Six Months

Typically, the flow of revenues from the City's utility billings and General Fund sources is enough to provide funds for ongoing expenditures in those respective funds. Projections indicate that for the City's cashflow, an overall decline in the portfolio of \$30.2 million is expected over the coming six months due to routine business needs. This reflects expected receipts of \$304.4 million and expenditures of \$334.6 million over the next six months.

The expected decline in the portfolio is attributable to pre-paying a portion of the Fiscal Year 2023 Public Employers' Retirement System's (PERS) employer contribution of \$43.1 million, representing the City's unfunded accrued liability (UAL) lump-sum prepayment for FY 2023. By prepaying PERS instead of making payments with each payroll period, the City is expected to save \$1.4 million in pension expense; the savings will be offset by the loss of approximately \$0.4 million in interest income in the City's investment portfolio. This results in net citywide savings of \$1.0 million because PERS has the ability to earn interest earlier and at a higher rate than the City could realize.



As of March 31, 2022, the City had \$28.9 million deposited in the Local Agency Investment Fund (LAIF) and a money market account that could be withdrawn on a daily basis. In addition, investments totaling \$31.9 million will mature between April 1, 2022 and September 31, 2022. Based on the above and staff's revenue and expenditure forecast for the next six months, staff expect that the City will have sufficient funds to meet expenditure requirements for the next six months.

#### Compliance with City Investment Policy

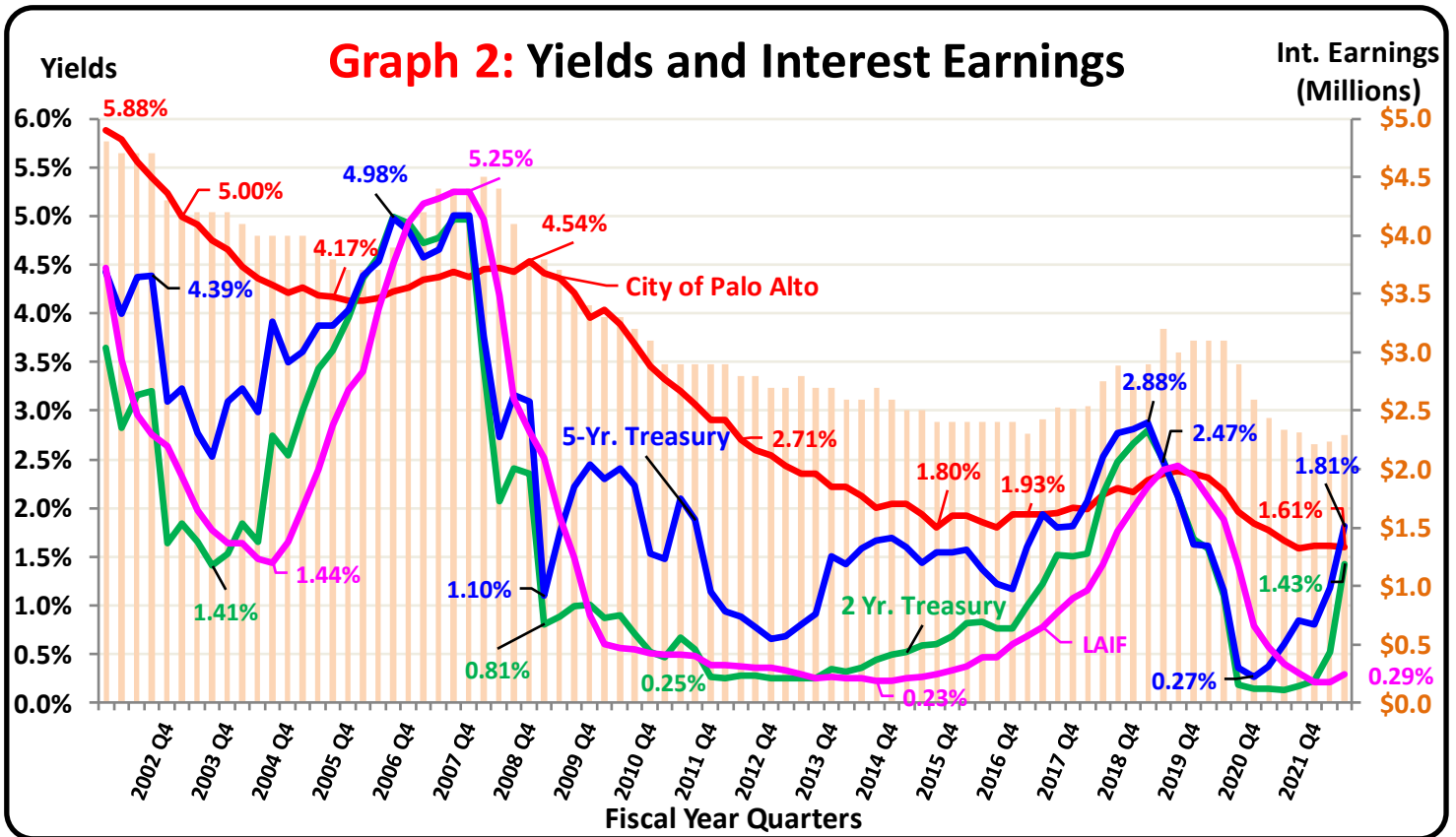
During the third quarter, staff complied with all aspects of the investment policy. Attachment C lists the major restrictions in the City's investment policy compared with the portfolio's actual performance.

#### Investment Yields

Interest income on an accrual basis for the third quarter was \$2.3 million; same as the prior quarter. As of March 31, 2022, the yield to maturity of the City's portfolio was 1.61 percent; in the prior quarter it was similar or at 1.62 percent. In the third quarter, LAIF's average yield was 0.29 percent while the average yield on the two-year and five-year Treasury bonds was approximately 1.43 percent and 1.81 percent, respectively. In comparison, in the prior quarter LAIF had 0.22 percent yield and the two-year and five-year Treasury bonds yields were significantly lower at 0.53 percent and 1.18 percent.

Historically, the City's portfolio yield has outperformed the two-year and five-year Treasury bond rates and did so again starting over two years ago; this is an expected occurrence during economic downturns. However, during economic recovery periods, interest rates rise and the City's portfolio yield is expected to be lower, as is the current financial environment. As the City's laddered portfolio investments mature in the next year or two, funds will continue to be reinvested and trends will follow the economic patterns. Graph 2 shows the City's yields and interest earnings for the past 20+ years.





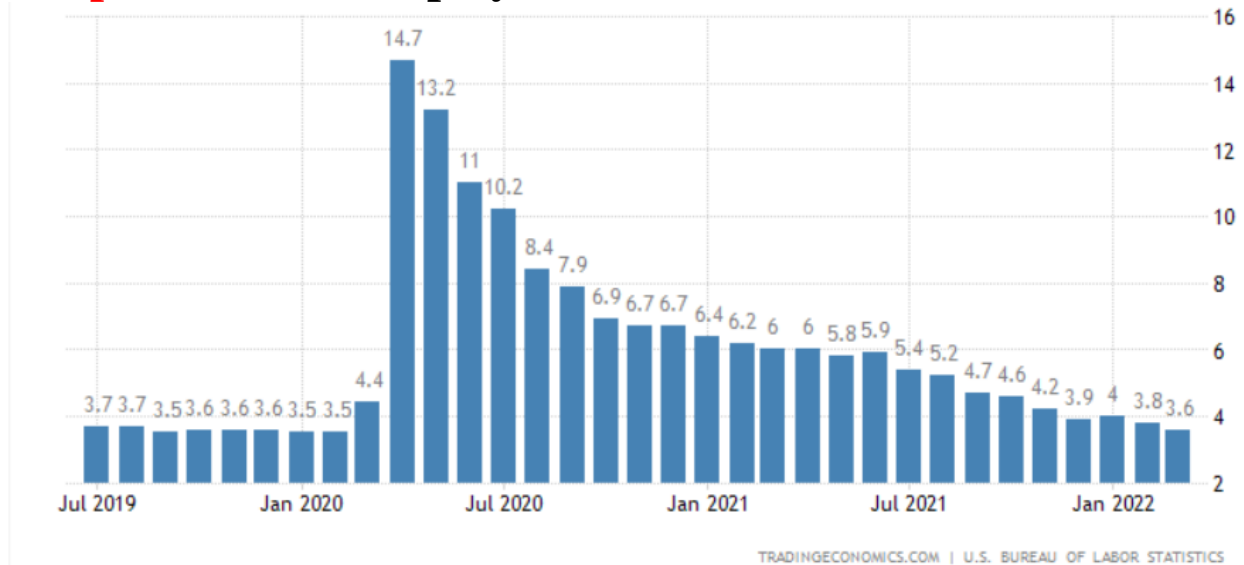
City's portfolio duration is 4.12 years.

### Yield Trends

In its March 16, 2022 meeting, the Federal Open Market Committee (FOMC), after 17 consecutive meetings, since March 2020, raised the federal funds rate by 0.25 percent (0.25 percent to 0.50 percent) after being near zero. In order to mitigate the elevated inflation rate, the expectation is there will continue to be multiple federal funds rate interest rate increases in 2022 and 2023. FOMC's inflation concern are "reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures." They stated, "The invasion of Ukraine by Russia is causing tremendous human and economic hardship." This has also created further uncertainty for the U.S. economy and has put additional upward pressure on inflation which may require more aggressive actions by the FOMC. The FOMC Gross Domestic Product (GDP) outlook for this year is around 2.8 percent which is lower than their previous expectation of around 4 percent. For unemployment, they expect the bottom for this year will be around 3.5 percent, currently it's 3.6 percent, and for this to stay there for the next few years with longer-term outlook to be around 4 percent (Graph 3 below shows unemployment rate trends).



### Graph 3: U.S. Unemployment Rate



#### Funds Held by the City or Managed Under Contract

**Attachment A** is a consolidated report of all City investment funds, including those not held directly in the investment portfolio. These include cash in the City’s regular bank account with US Bank and Wells Fargo. A description of the City’s banking relationships can be found in [City Council Staff Report ID # 7858](#) and [ID # 11402](#). The bond proceeds, reserves, and debt service payments being held by the City’s fiscal agents are subject to the requirements of the underlying debt indenture. The trustees for the bond funds are U.S. Bank and California Asset Management Program (CAMP). Bond funds with U.S. Bank are invested in federal agency and money market mutual funds that consist exclusively of U.S. Treasury securities. Bond funds in CAMP are invested in banker’s acceptance notes, certificates of deposit, commercial paper, federal agency securities, and repurchase agreements. The most recent data on funds held by the fiscal agent is as of March 31, 2022.

In January 2017, the City established a Section 115 Irrevocable Trust (Public Agencies Post-Employment Benefits Trust) administered by Public Agency Retirement Services (PARS). This fund is not governed by the City’s Investment Policy; however, it is discussed in this report to present the full picture of the City’s investments. It is the City’s intent to prefund pension costs and began to address the Net Pension Liabilities (NPL) as calculated by Governmental Accounting Standards Board Pronouncement No. 68 (GASB 68). The Section 115 Trust offered by PARS has five portfolios from which to choose in making investments of City funds. The City has selected the “Moderately Conservative” portfolio which is the second most conservative. Additional information on this trust can be found in City Council [Staff Report ID # 7553](#). Through March 31, 2022, principal investment contributions of \$34.8 million made over time



since May 2017, have grown to \$38.2 million and the net return for one and three years has been -0.17 percent and 5.34 percent respectively.

**Fiscal Impact**

This is an information report discussing the previous three months and the information presented does not result in a financial impact.

**Environmental Review**

This information report is not a project under the California Environmental Quality Act; therefore, an environmental review is not required.

**Attachments:**

- **Attachment18.a:** Attachment A Consolidated Report of Cash Management
- **Attachment18.b:** Attachment B Investment Portfolio
- **Attachment18.c:** Attachment C Investment Policy Compliance



**Consolidated Report of Cash Management**  
**City of Palo Alto Cash and Investments**  
**Third Quarter, Fiscal Year 2021-22**  
**(Unaudited)**

	<u>Book Value</u>	<u>Market Value</u>
<b><u>City Investment Portfolio</u></b> (see Attachment B)	\$ 582,263,760	\$ 558,001,622
<b><u>Other Funds Held by the City</u></b>		
Cash with Wells Fargo Bank (includes general and imprest accounts)	434,462	434,462
Cash with US Bank (includes general and imprest accounts)	1,256,341	1,256,341
Petty/Working Cash	11,927	11,927
Total - Other Funds Held By City	1,702,730	1,702,730
<b><u>Funds Under Management of Third Party Trustees *</u></b>		
<b><u>Debt Service Proceeds</u></b>		
<b><u>US Bank Trust Services **</u></b>		
2009 Water Revenue Bonds (Build America Bonds) Debt Service and Reserve Funds	2,551,138	2,551,138
2010 General Obligation (Library) Bond Debt Service and Escrow Funds	2,927,702	2,927,702
2011 Utility Revenue Refunding Bonds Debt Service and Reserve Funds	789,022	789,022
2012 University Ave. Parking Refunding Bonds Reserve and Escrow Funds	1,677,540	1,677,540
2018 Capital Improvement (Golf Course & 2002B COP Refinance) (Taxable- Green Bond) Certificates of Participation Debt Service and Cost of Issuance Funds	17,996	17,996
2019 California Avenue Parking Garage Certificates of Participation (Tax-Exempt and Taxable Bonds) Construction and Cost of Issuance Funds	5	5
2021 Public Safety Building Certificates of Participation Construction Debt Svc, Capitalized Interest, and Cost of Issuance	62,332,352	62,332,352
<b><u>California Asset Management Program (CAMP) ***</u></b>		
2012 University Ave. Parking Refunding Bonds Reserve Fund	2,706,849	2,706,849
2013 General Obligation (Library) Bond Reserve Fund	599,078	599,078
<b><u>Public Agencies Post-Employment Benefits Trust ****</u></b>		
Public Agency Retirement Services (PARS)	38,213,070	38,213,070
Total Under Trustee Management	111,814,753	111,814,753
<b>GRAND TOTAL</b>	<b>\$ 695,781,242</b>	<b>\$ 671,519,105</b>

\* These funds are subject to the requirements of the underlying debt indenture.

\*\* U.S. Bank investments are in money market mutual funds that exclusively invest in U.S. Treasury securities.

\*\*\* CAMP investments are in money market mutual fund which invest in bankers acceptance, certificate of deposit, commercial paper, federal agency securities, and repurchase agreements.

\*\*\*\* PARS investments are in moderately conservative index plus funds





**City of Palo Alto  
Fund ALL - Portfolio Listings  
Investments by Fund  
March 31, 2022**

City of Palo Alto  
Administration Svcs. Dept.  
250 Hamilton Ave., 4th Floor  
Palo Alto, CA 94301  
(650)329-2362

CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
<b>LAIF &amp; Fidelity Cash Accounts</b>											
SYS158	158	Fidelity Investments	07/01/2020	4,162,327.04	4,162,327.04	4,162,327.04	0.200	0.197	0.200		1
SYS159	159	Local Agency Investment Fund	07/01/2020	24,755,204.56	24,755,204.56	24,691,809.45	0.420	0.414	0.420		1
<b>Subtotal and Average</b>				<b>28,917,531.60</b>	<b>28,917,531.60</b>	<b>28,854,136.49</b>		<b>0.383</b>	<b>0.388</b>		<b>1</b>
<b>Negotiable Certificates of Deposits</b>											
20033AM86	1959 NCD	Comenity Capital Bank	10/30/2018	245,000.00	245,000.00	251,377.35	3.450	3.404	3.451	10/30/2023	577
02600ADE4	1476 NCD	American Federal Bank	09/30/2015	245,000.00	245,000.00	246,940.40	2.450	2.418	2.451	09/30/2022	182
01748DAW6	1844 NCD	Allegiance Bank - Texas	09/29/2017	245,000.00	245,000.00	246,443.05	2.050	2.022	2.051	09/29/2022	181
02082CBG4	1525 NCD	Alpine Bank	02/16/2016	245,000.00	245,000.00	245,646.80	2.400	2.367	2.400	08/16/2023	502
02554BCN9	2124 NCD	American Eagle Bank	09/27/2019	249,070.69	249,000.00	249,605.07	2.100	1.869	1.895	05/23/2022	52
034577AN6	2298 NCD	Aneca Federal Credit Union	03/20/2020	249,000.00	249,000.00	238,766.10	1.100	1.085	1.100	03/20/2025	1,084
029733BX9	1805 NCD	American State Bank OSCE	05/30/2017	245,000.00	245,000.00	245,546.35	2.300	2.270	2.301	05/30/2024	790
02589AA28	1986 NCD	American Express Centurion Bk	12/04/2018	245,000.00	245,000.00	251,813.45	3.550	3.501	3.550	12/04/2023	612
06654HAA6	2453 NCD	Banner Capital Bank	11/27/2020	248,544.45	249,000.00	230,459.46	0.450	0.493	0.500	11/28/2025	1,337
065847EH4	2455 NCD	Bank of Wisconsin Dells	11/23/2020	253,087.14	249,000.00	236,970.81	1.050	0.542	0.549	07/28/2025	1,214
07371AYT4	2668 NCD	Beal Bank - Plano, TX	03/02/2022	248,632.66	249,000.00	242,207.28	2.050	2.053	2.081	02/24/2027	1,790
88241THJ2	2346 NCD	Texas Exchange Bank	06/02/2020	249,000.00	249,000.00	237,013.14	1.000	0.986	1.000	06/13/2025	1,169
063615AX6	1472 NCD	Bank West	09/16/2015	245,000.00	245,000.00	246,624.35	2.250	2.220	2.251	09/16/2022	168
03753XAN0	1693 NCD	Apex Bank	09/30/2016	245,000.00	245,000.00	246,021.65	1.700	1.676	1.700	09/30/2022	182
156634AY3	2074 NCD	Century Next Bank	08/30/2019	245,000.00	245,000.00	241,538.15	1.700	1.678	1.701	08/30/2024	882
066519QC6	2474 NCD	BankUnited NA	01/22/2021	248,525.45	249,000.00	230,621.31	0.550	0.592	0.600	01/22/2026	1,392
05600XBX7	2480 NCD	BMO Harris Bank	01/27/2021	248,471.86	249,000.00	223,716.54	1.000	1.019	1.034	10/27/2028	2,401
05580AXU3	2448 NCD	BMW Bank of North America	11/20/2020	249,000.00	249,000.00	231,104.37	0.500	0.493	0.500	11/20/2025	1,329
06644QAA9	1767 NCD	BankFirst	04/13/2017	245,000.00	245,000.00	245,137.20	2.000	1.973	2.001	04/13/2022	12
07371CH69	2669 NCD	Beal Bank USA - Las Vegas, NV	03/02/2022	248,632.66	249,000.00	242,207.28	2.050	2.053	2.081	02/24/2027	1,790
05765LAW7	1984 NCD	Balboa Thrift & Loan	11/30/2018	245,000.00	245,000.00	248,785.25	3.250	3.207	3.252	11/30/2022	243
17312QJ67	1950 NCD	Citigroup	04/24/2018	245,000.00	245,000.00	249,253.20	3.000			04/22/2023	386
29260MBH7	2343 NCD	Encore Bank	05/21/2020	249,000.00	249,000.00	231,017.22	1.150	1.134	1.150	05/21/2027	1,876
201282HM5	1772 NCD	Commercial Bank - Alma	04/21/2017	245,000.00	245,000.00	245,227.85	2.050	2.023	2.051	04/21/2022	20
31944MBB0	2389 NCD	First Carolina Bank	08/20/2020	248,000.00	248,000.00	230,957.44	0.450	0.444	0.450	08/20/2025	1,237
15118RRH2	2063 NCD	Celtic Bank	08/30/2019	245,000.00	245,000.00	242,403.00	1.850	1.826	1.852	08/30/2024	882



**Fund ALL - Portfolio Listings  
Investments by Fund  
March 31, 2022**

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CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Days To Date Maturity
<b>Negotiable Certificates of Deposits</b>										
15523RCP9	2324 NCD	Central State Bank IOWA	03/27/2020	247,512.27	249,000.00	237,926.97	1.000	1.189	1.206	03/27/2025 1,091
17037VBT8	1884 NCD	Choice Bank - Oshkosh WI	12/29/2017	245,000.00	245,000.00	247,533.30	2.350	2.317	2.350	12/29/2022 272
17248MAC1	2504 NCD	Cinfed Fed Credit Union Bank	03/04/2021	248,386.99	249,000.00	226,059.63	0.650	0.691	0.701	03/04/2027 1,798
17286TAG0	2267 NCD	Citadel Federal Credit Union	02/27/2020	244,714.90	245,000.00	239,085.70	1.650	1.668	1.691	02/27/2025 1,063
17670BAQ1	1541 NCD	Citizens State Bank	02/19/2016	250,000.00	250,000.00	251,327.50	1.750	1.727	1.751	02/17/2023 322
202291AD2	1868 NCD	Commercial Savings Bank	10/18/2017	245,000.00	245,000.00	246,634.15	2.100	2.071	2.100	10/18/2022 200
29278TMR8	2215 NCD	Enerbank USA	01/29/2020	245,000.00	245,000.00	240,465.05	1.800	1.779	1.803	01/29/2025 1,034
17801GBQ1	1791 NCD	City National Bk of Metropolis	05/15/2017	245,000.00	245,000.00	245,485.10	2.000	1.972	2.000	05/16/2022 45
20825WAR1	2643 NCD	Connexus Credit Union	12/23/2021	248,529.00	249,000.00	233,661.60	1.250	1.273	1.291	12/23/2026 1,727
14042TCP0	2089 NCD	Capital One Bank USA NA	09/05/2019	245,000.00	245,000.00	242,638.20	1.900	1.873	1.900	09/05/2024 888
14042RQB0	2609 NCD	Capital One Bank USA NA	11/17/2021	249,000.00	249,000.00	232,473.87	1.100	1.084	1.100	11/17/2026 1,691
20070PJA6	1797 NCD	Commerce State Bank	05/22/2017	245,000.00	245,000.00	245,558.60	2.000	1.972	2.000	05/23/2022 52
20404MAN1	1471 NCD	Community State Bank, IA	09/11/2015	245,000.00	245,000.00	246,604.75	2.250	2.224	2.255	09/12/2022 164
225645DN7	2296 NCD	Crescent Bank & Trust	03/20/2020	248,000.00	248,000.00	237,807.20	1.100	1.085	1.100	03/20/2025 1,084
222327AD0	2477 NCD	Country Club Bank	01/29/2021	247,700.08	249,000.00	220,980.03	1.100	1.154	1.170	01/29/2030 2,860
24773RCR4	2670 NCD	Delta Natl Bank & TR	03/09/2022	249,000.00	249,000.00	241,632.09	2.000	1.975	2.003	02/25/2027 1,791
254673VJ2	1956 NCD	Discover Bank / Delaware	10/24/2018	245,000.00	245,000.00	250,960.85	3.350	3.304	3.350	10/24/2023 571
27004PBV4	2545 NCD	Eaglemark Savings Bank	07/07/2021	248,150.18	249,000.00	231,358.35	0.850	0.919	0.932	07/07/2026 1,558
27002YEL6	2040 NCD	Eagle Bank	04/30/2019	245,000.00	245,000.00	248,371.20	2.650	2.615	2.651	04/28/2023 392
308682BM4	2486 NCD	Farmers & Merchant State Bank	02/12/2021	248,144.78	249,000.00	222,558.69	1.000	1.037	1.052	02/12/2029 2,509
33847E4E4	2414 NCD	Flagstar Bank FSB	09/30/2020	249,000.00	249,000.00	237,311.94	0.400	0.394	0.400	09/30/2024 913
33767A2C4	1768 NCD	FirstBank Puerto Rico	04/07/2017	245,000.00	245,000.00	245,078.40	2.100	2.072	2.101	04/07/2022 6
73319FAF6	2285 NCD	Poppy Bank	03/18/2020	249,000.00	249,000.00	238,800.96	1.100	1.085	1.100	03/18/2025 1,082
32018YAW8	1626 NCD	First Federal S&L Bank	06/22/2016	245,000.00	245,000.00	246,229.90	1.800	1.776	1.800	06/22/2023 447
32022RNT0	2390 NCD	1st Financial Bank	08/19/2020	248,000.00	248,000.00	230,972.32	0.450	0.444	0.450	08/19/2025 1,236
320165JK0	2076 NCD	First Farmers Bank & Trust	09/04/2019	245,000.00	245,000.00	241,778.25	1.750	1.727	1.751	09/04/2024 887
32056GCQ1	1834 NCD	First Internet Bank	07/14/2017	245,000.00	245,000.00	246,082.90	2.050	2.023	2.051	07/14/2022 104
30960QAK3	2479 NCD	Farmers Insurance Group CU	01/27/2021	248,523.75	249,000.00	230,056.08	0.500	0.543	0.550	01/27/2026 1,397
335857CK2	2451 NCD	First Oklahoma Bank	11/30/2020	248,419.04	249,000.00	227,337.00	0.650	0.691	0.701	11/30/2026 1,704
307811DM8	2644 NCD	Farmers & Merchants Bank	01/14/2022	248,030.17	249,000.00	229,846.92	1.600	1.630	1.653	01/22/2030 2,853
32110YRQ0	2465 NCD	First National Bank of America	12/31/2020	248,605.65	249,000.00	226,378.35	0.600	0.625	0.633	12/31/2026 1,735
330459CB2	1863 NCD	FNB Bank Inc.	10/13/2017	245,000.00	245,000.00	246,881.60	2.250	2.220	2.251	10/13/2023 560



**Fund ALL - Portfolio Listings  
Investments by Fund  
March 31, 2022**

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CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
<b>Negotiable Certificates of Deposits</b>											
33583FAA0	1779 NCD	First Northeast Bank	04/19/2017	245,000.00	245,000.00	246,643.95	2.100	2.072	2.101	10/19/2022	201
336460CH1	1824 NCD	First State Bank - Dequeen	06/30/2017	245,000.00	245,000.00	245,306.25	2.000	1.973	2.000	04/29/2022	28
33715LCM0	1955 NCD	First Technology Federal Credi	10/17/2018	245,000.00	245,000.00	251,159.30	3.400	3.355	3.401	10/17/2023	564
31986JAD3	2554 NCD	First Community Credit Union	07/28/2021	248,343.49	249,000.00	228,442.56	0.850	0.892	0.905	02/26/2027	1,792
33766LAJ7	2061 NCD	Firstier Bank	08/23/2019	245,000.00	245,000.00	243,040.00	1.950	1.925	1.952	08/23/2024	875
32065TAW1	1856 NCD	First Kentucky Bank	10/06/2017	245,000.00	245,000.00	246,553.30	2.100	2.072	2.101	10/06/2022	188
33749VAM0	1770 NCD	First Western Bank & Trust	04/07/2017	245,000.00	245,000.00	245,073.50	2.000	1.973	2.001	04/07/2022	6
37424PAC8	2456 NCD	Gesa Credit Union	11/30/2020	248,496.11	249,000.00	224,538.24	0.800	0.825	0.836	11/30/2027	2,069
39115UBB8	1865 NCD	Great Plains Bank	10/25/2017	245,000.00	245,000.00	246,119.65	2.000	1.972	2.000	07/25/2022	115
387625AA4	2042 NCD	Grant County Bank West V.	05/08/2019	245,000.00	245,000.00	246,918.35	2.550	2.513	2.548	05/08/2024	768
38148PJ81	1951 NCD	Goldman Sachs Bank USA / NY	05/09/2018	245,000.00	245,000.00	249,728.50	3.150	3.106	3.150	05/09/2023	403
404730DA8	2447 NCD	Haddon Savings Bank	11/16/2020	205,655.82	207,000.00	191,427.39	0.350	0.527	0.535	10/20/2025	1,298
06251A2Q2	2457 NCD	Bank Hapoalim BM	12/14/2020	248,538.66	249,000.00	230,735.85	0.500	0.543	0.550	12/15/2025	1,354
46147USQ4	1765 NCD	Investors Community Bank	03/24/2017	245,000.00	245,000.00	246,604.75	2.200	2.172	2.202	09/23/2022	175
45581EAC5	1773 NCD	Industrial & Com Bk of China	04/12/2017	245,000.00	245,000.00	245,139.65	2.150	2.121	2.151	04/12/2022	11
45780PAQ8	2556 NCD	Inst. for Sav in Newburyport	07/29/2021	249,000.00	249,000.00	231,520.20	0.900	0.888	0.900	07/29/2026	1,580
48040PJL0	2452 NCD	Jonesboro State Bank	11/27/2020	248,295.64	249,000.00	223,933.17	0.750	0.790	0.801	11/26/2027	2,065
50116CAX7	1798 NCD	Kansas State Bank Manhattan	05/31/2017	245,000.00	245,000.00	246,577.80	2.500	2.465	2.500	05/31/2024	791
499724AF9	2140 NCD	Knox TVA Empl Credit Union	10/24/2019	252,159.71	248,000.00	254,071.04	3.350	2.210	2.241	10/31/2023	578
51210SLR6	1686 NCD	Lakeside Bank	09/16/2016	245,000.00	245,000.00	245,438.55	1.800	1.775	1.800	09/18/2023	535
52470QAN4	2469 NCD	Legacy Bank & Trust Company	12/30/2020	248,160.26	249,000.00	220,798.26	0.850	0.889	0.901	12/21/2028	2,456
538036SS4	2599 NCD	Live Oak Banking Company	10/18/2021	248,309.26	249,000.00	228,898.23	1.100	1.135	1.151	10/18/2027	2,026
063248KR8	2335 NCD	Bank Leumi USA NY	03/31/2020	249,000.00	249,000.00	249,373.50	1.450			03/31/2023	364
56102AAQ9	2402 NCD	Malaga Bank FSB	08/31/2020	249,000.00	249,000.00	232,227.36	0.400	0.394	0.400	06/30/2025	1,186
56585YAA8	1818 NCD	Marathon Savings Bank	06/28/2017	245,000.00	245,000.00	245,957.95	2.050	2.023	2.051	06/28/2022	88
58740XZF0	1793 NCD	Mercantile Bank of Michigan	05/12/2017	245,000.00	245,000.00	245,470.40	2.100	2.071	2.100	05/12/2022	41
59001PAP4	2672 NCD	Meritrust Federal Credit Union	03/07/2022	235,967.17	249,000.00	233,171.07	0.550	1.904	1.930	03/10/2026	1,439
583626AC0	1803 NCD	Mechanics Coop Bank	05/26/2017	245,000.00	245,000.00	245,610.05	2.050	2.023	2.051	05/26/2022	55
58404DDB4	2010 NCD	Medallion Bank - Salt Lake	01/10/2019	245,000.00	245,000.00	250,806.50	3.300	3.254	3.299	01/03/2024	642
51507LBU7	2123 NCD	Landmark Community Bank	09/27/2019	249,263.24	249,000.00	250,142.91	2.350	1.868	1.894	06/27/2022	87
589227AG2	2059 NCD	Merchants State Bank	08/30/2019	245,000.00	245,000.00	242,118.80	1.800	1.775	1.800	08/30/2024	882
59013KPS9	2610 NCD	Merrick Bank	11/19/2021	248,313.51	249,000.00	234,304.02	1.100	1.152	1.168	05/19/2026	1,509

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**Fund ALL - Portfolio Listings  
Investments by Fund  
March 31, 2022**

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CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
<b>Negotiable Certificates of Deposits</b>											
59541KBL0	1806 NCD	Mid-Missouri Bank	06/12/2017	245,000.00	245,000.00	245,771.75	2.050	2.023	2.051	06/10/2022	70
60425SJQ3	2478 NCD	Minwest Bank MV	01/28/2021	248,362.38	249,000.00	222,673.23	1.000	1.024	1.039	01/29/2029	2,495
560507AN5	2144 NCD	Maine Savings Credit Union	11/08/2019	245,000.00	245,000.00	242,015.90	1.900	1.875	1.902	11/08/2024	952
56065GAG3	2038 NCD	Mainstreet Bank	04/26/2019	245,000.00	245,000.00	247,207.45	2.600	2.567	2.602	04/26/2024	756
62384RAC0	2202 NCD	Mountain America FD Credit Uni	01/08/2020	249,505.10	249,000.00	251,101.56	2.300	1.928	1.955	11/08/2022	221
61747MF63	1890 NCD	Morgan Stanley Bank NA	01/11/2018	245,000.00	245,000.00	248,126.20	2.650	2.613	2.650	01/11/2023	285
61760ASZ3	1993 NCD	Morgan Stanley Bank NA	12/06/2018	245,000.00	245,000.00	251,815.90	3.550	3.501	3.550	12/06/2023	614
625925AP7	1800 NCD	Municipal Trust and Savings	05/22/2017	245,000.00	245,000.00	245,938.35	2.350	2.317	2.349	05/02/2024	762
63969ABL7	1466 NCD	Nebraska State Bank & Trust	08/26/2015	245,000.00	245,000.00	246,972.25	2.250	2.220	2.251	08/26/2022	147
67054NAN3	1991 NCD	Numerica Credit Union	11/28/2018	245,000.00	245,000.00	251,820.80	3.550	3.503	3.551	11/28/2023	606
839145AA7	1851 NCD	South Ottumwa Savings Bank	09/29/2017	245,000.00	245,000.00	246,443.05	2.050	2.022	2.051	09/29/2022	181
68956HAC7	1892 NCD	Ottawa Savings Bank	01/19/2018	245,000.00	245,000.00	247,665.60	2.400	2.368	2.401	01/19/2023	293
69506YSA8	2420 NCD	Pacific Western Bank	09/30/2020	249,000.00	249,000.00	231,358.35	0.450	0.443	0.450	09/30/2025	1,278
70320KAR2	2429 NCD	Pathfinder Bank	10/13/2020	248,647.83	249,000.00	231,530.16	0.500	0.533	0.540	10/14/2025	1,292
710665GD6	2468 NCD	People's Bank	12/30/2020	247,499.26	249,000.00	217,760.46	0.900	0.967	0.981	12/31/2029	2,831
732333AH2	1795 NCD	Ponce De Leon Federal Bank	05/26/2017	245,000.00	245,000.00	245,629.65	2.100	2.072	2.101	05/26/2022	55
70962LAE2	2565 NCD	Pentagon Fed Cred Union	09/01/2021	248,449.77	249,000.00	230,616.33	0.850	0.889	0.901	09/01/2026	1,614
740367HP5	2047 NCD	Preferred Bank LA California	08/16/2019	245,000.00	245,000.00	243,383.00	2.000	1.972	2.000	08/16/2024	868
70147ACE2	1833 NCD	Parkside Financial Bank	07/19/2017	245,000.00	245,000.00	246,991.85	2.100	2.072	2.101	03/15/2023	348
732770BJ0	2488 NCD	Pony Express Bank	02/24/2021	247,688.21	249,000.00	219,110.04	1.000	1.055	1.070	02/25/2030	2,887
75472RAU5	2188 NCD	Rayond James Bank NA	12/30/2019	245,000.00	245,000.00	241,151.05	1.850	1.824	1.850	12/30/2024	1,004
7954504D4	2102 NCD	Sallie Mae Bank	09/18/2019	245,000.00	245,000.00	242,518.15	1.900	1.873	1.900	09/18/2024	901
856285UJ8	2403 NCD	State Bank of India	09/04/2020	249,000.00	249,000.00	232,140.21	0.500	0.493	0.500	09/04/2025	1,252
86063QAK1	1953 NCD	Stifel Bank & Trust	05/15/2018	245,000.00	245,000.00	249,231.15	2.950	2.911	2.951	05/15/2023	409
79772FAF3	2297 NCD	San Francisco Credit Union	03/27/2020	249,000.00	249,000.00	238,644.09	1.100	1.085	1.100	03/27/2025	1,091
86804DCQ9	2491 NCD	Sunwest Bank	02/17/2021	247,953.73	249,000.00	223,616.94	0.800	0.861	0.873	02/17/2028	2,148
835104BL3	1616 NCD	Somerset Trust Company Bank	06/10/2016	245,000.00	245,000.00	246,266.65	1.800	1.776	1.800	06/12/2023	437
83158TAA0	1872 NCD	Slovak Savings Bank	10/20/2017	245,000.00	245,000.00	246,651.30	2.100	2.072	2.101	10/20/2022	202
814107AQ1	1777 NCD	Security Bank	04/19/2017	245,000.00	245,000.00	245,200.90	2.000	1.973	2.001	04/19/2022	18
84485EAG2	2333 NCD	Southwest Financial Fed. Credi	03/31/2020	249,000.00	249,000.00	244,296.39	1.150	1.134	1.150	03/28/2024	727
87165FZN7	2563 NCD	Synchrony Bank	08/20/2021	249,000.00	249,000.00	231,335.94	0.900	0.887	0.900	08/20/2026	1,602
882214AA7	2464 NCD	Texas Bank Henderson	12/23/2020	248,628.55	249,000.00	229,871.82	0.450	0.483	0.490	12/23/2025	1,362



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<b>Negotiable Certificates of Deposits</b>											
88413QCK2	2157 NCD	Third Federal Savings and Loan	11/25/2019	245,000.00	245,000.00	242,165.35	1.950	1.923	1.950	11/25/2024	969
22766ABF1	1804 NCD	Crossfirst Bank of Leawood	06/09/2017	245,000.00	245,000.00	247,001.65	2.150	2.121	2.151	06/09/2023	434
89235MLC3	2551 NCD	Toyota Financial Savings Bank	07/15/2021	249,000.00	249,000.00	232,264.71	0.950	0.936	0.950	07/15/2026	1,566
894333FF5	1820 NCD	Traverse City State Bank	06/28/2017	245,000.00	245,000.00	245,935.90	2.000	1.972	2.000	06/28/2022	88
903572BC8	1639 NCD	Uinta Bank	06/24/2016	245,000.00	245,000.00	245,164.15	1.700	1.676	1.700	12/26/2023	634
39573LBM9	2552 NCD	Greenstate Credit Union	07/21/2021	249,000.00	249,000.00	232,122.78	0.950	0.937	0.950	07/21/2026	1,572
90352RAU9	2325 NCD	USAlliance Federal Credit Unio	03/31/2020	248,850.68	249,000.00	239,293.98	1.150	1.155	1.171	03/31/2025	1,095
90353EAR4	2546 NCD	USF Federal Credit Union	07/15/2021	247,381.09	249,000.00	228,345.45	1.750	1.801	1.826	07/15/2031	3,392
92891CCE0	2136 NCD	Vystar Credit Union	10/18/2019	250,755.88	245,000.00	252,254.45	3.650	2.170	2.200	12/11/2023	619
938828BJ8	2049 NCD	Washington Federal	08/23/2019	245,000.00	245,000.00	243,610.85	2.050	2.024	2.052	08/23/2024	875
95960NKE6	2342 NCD	Western State Bank	05/13/2020	248,000.00	248,000.00	234,957.68	1.050	1.035	1.050	11/13/2025	1,322
98321PAJ9	2446 NCD	Wyoming Bank & Trust	11/27/2020	248,726.67	249,000.00	230,902.68	0.500	0.515	0.522	11/28/2025	1,337
979424AA6	1459 NCD	Woodford State Bank	08/12/2015	245,000.00	245,000.00	246,670.90	2.350	2.317	2.349	07/29/2022	119
93754PAN7	1842 NCD	Washington County Bank	08/11/2017	245,000.00	245,000.00	245,445.90	2.050	2.021	2.050	05/11/2022	40
<b>Subtotal and Average</b>				<b>33,499,633.74</b>	<b>33,522,000.00</b>	<b>32,632,125.47</b>		<b>1.653</b>	<b>1.676</b>		<b>931</b>
<b>Corporate Medium Term Bonds</b>											
037833AK6	2082 MTN	Apple, Inc.	08/29/2019	553,751.83	550,000.00	552,970.00	2.400	1.726	1.750	05/03/2023	397
037833DF4	2401 MTN	Apple, Inc.	08/28/2020	1,587,217.90	1,500,000.00	1,502,415.00	2.750	0.620	0.628	01/13/2025	1,018
037833EB2	2489 MTN	Apple, Inc.	02/08/2021	700,155.12	700,000.00	651,910.00	0.700	0.684	0.694	02/08/2026	1,409
037833CJ7	2667 MTN	Apple, Inc.	02/23/2022	789,443.99	750,000.00	765,885.00	3.350	2.115	2.145	02/09/2027	1,775
02079KAH0	2507 MTN	Alphabet (Google) Inc.	03/01/2021	198,487.74	200,000.00	186,592.00	0.450	0.668	0.678	08/15/2025	1,232
02079KAC1	2675 MTN	Alphabet (Google) Inc.	03/14/2022	990,463.00	1,000,000.00	974,630.00	1.998	2.197	2.228	08/15/2026	1,597
478160CN2	2466 MTN	Johnson & Johnson	12/23/2020	2,004,308.86	2,000,000.00	1,865,220.00	0.550	0.479	0.486	09/01/2025	1,249
478160BY9	2508 MTN	Johnson & Johnson	03/01/2021	2,118,464.91	2,000,000.00	1,989,260.00	2.450	0.812	0.823	03/01/2026	1,430
478160BY9	2509 MTN	Johnson & Johnson	03/01/2021	1,059,217.27	1,000,000.00	994,630.00	2.450	0.812	0.824	03/01/2026	1,430
594918BX1	2212 MTN	Microsoft Corporation	01/22/2020	1,834,494.02	1,800,000.00	1,822,986.00	2.875	1.727	1.751	02/06/2024	676
594918BJ2	2450 MTN	Microsoft Corporation	11/18/2020	3,169,480.35	2,920,000.00	2,970,691.20	3.125	0.572	0.580	11/03/2025	1,312
594918BJ2	2506 MTN	Microsoft Corporation	03/01/2021	194,170.32	180,000.00	183,124.80	3.125	0.753	0.763	11/03/2025	1,312
525555AB4	2046 MTN	Stanford University	05/14/2019	2,112,162.17	2,000,000.00	2,147,960.00	6.875	2.367	2.400	02/01/2024	671
525555AB4	2182 MTN	Stanford University	12/12/2019	1,086,114.71	1,000,000.00	1,073,980.00	6.875	1.934	1.960	02/01/2024	671
85440KAC8	2648 MTN	Stanford University	01/07/2022	1,484,343.01	1,500,000.00	1,378,740.00	1.289	1.479	1.500	06/01/2027	1,887
85440KAC8	2658 MTN	Stanford University	02/01/2022	485,654.57	500,000.00	459,580.00	1.289	1.849	1.875	06/01/2027	1,887

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<b>Corporate Medium Term Bonds</b>											
98459LAA1	2376 MTN	Yale University	07/01/2020	2,014,544.36	2,000,000.00	1,898,040.00	0.873	0.616	0.625	04/15/2025	1,110
98459LAA1	2511 MTN	Yale University	03/01/2021	3,019,904.31	3,000,000.00	2,847,060.00	0.873	0.638	0.646	04/15/2025	1,110
<b>Subtotal and Average</b>				<b>25,402,378.44</b>	<b>24,600,000.00</b>	<b>24,265,674.00</b>		<b>1.119</b>	<b>1.135</b>		<b>1,188</b>
<b>Federal Agency Bonds</b>											
037833CU2	2053 MTN	Apple, Inc.	08/06/2019	1,523,930.03	1,500,000.00	1,512,360.00	2.850	1.998	2.025	05/11/2024	771
31315PPX1	1130	Federal Agricultural Mortgage	12/13/2012	1,500,863.90	1,500,000.00	1,505,130.00	2.200	1.930	1.957	07/05/2022	95
31315PB32	1134	Federal Agricultural Mortgage	12/19/2012	749,526.25	750,000.00	753,493.50	2.000	2.081	2.110	11/21/2022	234
31315PUE7	1137	Federal Agricultural Mortgage	01/04/2013	1,499,841.09	1,500,000.00	1,509,195.00	2.180	2.165	2.196	12/27/2022	270
31315PUE7	1141	Federal Agricultural Mortgage	01/08/2013	1,499,548.64	1,500,000.00	1,509,195.00	2.180	2.195	2.225	12/27/2022	270
31315PUE7	1144	Federal Agricultural Mortgage	01/23/2013	1,500,386.27	1,500,000.00	1,509,195.00	2.180	2.111	2.141	12/27/2022	270
31315PUE7	1147	Federal Agricultural Mortgage	01/28/2013	2,594,143.21	2,595,000.00	2,610,907.35	2.180	2.199	2.229	12/27/2022	270
31315PPX1	1279	Federal Agricultural Mortgage	04/23/2014	1,247,894.82	1,250,000.00	1,254,275.00	2.200	2.889	2.930	07/05/2022	95
31315PL23	1428	Federal Agricultural Mortgage	01/09/2015	409,361.58	404,000.00	412,423.40	3.330	2.540	2.575	03/27/2024	726
31315PD89	1433	Federal Agricultural Mortgage	01/22/2015	1,609,365.31	1,604,000.00	1,616,382.88	2.610	2.269	2.301	06/12/2023	437
31315PD89	1447	Federal Agricultural Mortgage	02/09/2015	1,453,123.71	1,450,000.00	1,461,194.00	2.610	2.377	2.410	06/12/2023	437
31315PZS1	1576	Federal Agricultural Mortgage	04/06/2016	1,002,015.45	1,000,000.00	1,004,740.00	2.130	1.839	1.864	01/24/2023	298
31315PEM7	1580	Federal Agricultural Mortgage	04/08/2016	502,635.14	474,000.00	501,648.42	4.350	2.296	2.328	08/04/2025	1,221
31315P2J7	1595	Federal Agricultural Mortgage	04/21/2016	1,533,952.42	1,500,000.00	1,529,580.00	3.300	2.084	2.112	05/01/2024	761
31315P2J7	1604	Federal Agricultural Mortgage	04/26/2016	1,531,655.98	1,500,000.00	1,529,580.00	3.300	2.159	2.189	05/01/2024	761
31315PUE7	1617	Federal Agricultural Mortgage	05/26/2016	501,070.28	500,000.00	503,065.00	2.180	1.844	1.870	12/27/2022	270
3132X0BH3	1665	Federal Agricultural Mortgage	07/25/2016	2,004,731.76	2,000,000.00	2,008,620.00	2.380	1.499	1.520	07/15/2022	105
31315PRA9	1710	Federal Agricultural Mortgage	10/18/2016	1,637,518.30	1,500,000.00	1,624,320.00	4.810	2.131	2.160	02/03/2026	1,404
3132X0RS2	1769	Federal Agricultural Mortgage	04/06/2017	1,500,000.00	1,500,000.00	1,500,270.00	2.075	2.046	2.075	04/06/2022	5
31315PPX1	1817	Federal Agricultural Mortgage	06/14/2017	1,000,656.61	1,000,000.00	1,003,420.00	2.200	1.908	1.934	07/05/2022	95
3132X0UA7	1830	Federal Agricultural Mortgage	06/29/2017	1,499,825.47	1,500,000.00	1,503,645.00	1.880	1.903	1.930	06/29/2022	89
3132X0UA7	1831	Federal Agricultural Mortgage	06/29/2017	999,837.74	1,000,000.00	1,002,430.00	1.880	1.923	1.949	06/29/2022	89
3132X0WL1	1867	Federal Agricultural Mortgage	10/06/2017	997,466.55	1,000,000.00	996,720.00	2.250	2.332	2.365	08/23/2024	875
3132X0ZZ7	1877	Federal Agricultural Mortgage	12/12/2017	1,500,000.00	1,500,000.00	1,508,280.00	2.260	2.229	2.260	12/12/2022	255
3130H0AU7	1893	Federal Agricultural Mortgage	01/09/2018	1,000,921.08	1,000,000.00	1,005,550.00	2.625	2.546	2.581	08/01/2024	853
3130H0AU7	1901	Federal Agricultural Mortgage	01/11/2018	1,498,878.07	1,500,000.00	1,508,325.00	2.625	2.623	2.660	08/01/2024	853
3132X0G39	1912	Federal Agricultural Mortgage	01/30/2018	1,999,887.04	2,000,000.00	2,015,420.00	2.500	2.472	2.507	01/30/2023	304
3132X0G39	1915	Federal Agricultural Mortgage	01/30/2018	1,499,815.12	1,500,000.00	1,511,565.00	2.500	2.481	2.515	01/30/2023	304

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<b>Federal Agency Bonds</b>										
3132X0G39	1921	Federal Agricultural Mortgage	01/31/2018	1,998,573.44	2,000,000.00	2,015,420.00	2.500	2.556	2.592	01/30/2023 304
31315PZS1	1924	Federal Agricultural Mortgage	02/08/2018	1,095,957.72	1,100,000.00	1,105,214.00	2.130	2.578	2.614	01/24/2023 298
3132X0H87	1928	Federal Agricultural Mortgage	02/22/2018	1,500,000.00	1,500,000.00	1,512,690.00	2.600	2.564	2.600	02/22/2023 327
3132X0L33	1936	Federal Agricultural Mortgage	02/23/2018	1,500,000.00	1,500,000.00	1,514,940.00	2.770	2.732	2.770	02/21/2023 326
31315P4B2	1999	Federal Agricultural Mortgage	12/14/2018	552,689.45	549,000.00	561,286.62	3.460	3.018	3.060	01/30/2024 669
31422BEJ5	2034	Federal Agricultural Mortgage	04/09/2019	999,081.91	1,000,000.00	1,001,700.00	2.350	2.365	2.398	04/09/2024 739
31315PCY3	2035	Federal Agricultural Mortgage	04/08/2019	724,404.66	678,000.00	726,280.38	5.250	2.420	2.454	11/20/2024 964
31315PEM7	2098	Federal Agricultural Mortgage	09/09/2019	596,470.87	550,000.00	582,081.50	4.350	1.659	1.683	08/04/2025 1,221
31315PB99	2301	Federal Agricultural Mortgage	03/11/2020	1,720,103.83	1,569,000.00	1,585,741.23	2.850	1.050	1.064	11/19/2027 2,058
31422BZS2	2340 Call	Federal Agricultural Mortgage	05/13/2020	2,000,000.00	2,000,000.00	1,834,680.00	1.500	1.479	1.500	05/13/2030 2,964
31422BF54	2366 Call	Federal Agricultural Mortgage	06/24/2020	1,750,000.00	1,750,000.00	1,593,305.00	1.400	1.380	1.400	06/24/2030 3,006
31422BF54	2367 Call	Federal Agricultural Mortgage	06/24/2020	2,000,000.00	2,000,000.00	1,820,920.00	1.400	1.380	1.400	06/24/2030 3,006
31422BH78	2381 Call	Federal Agricultural Mortgage	07/08/2020	1,500,000.00	1,500,000.00	1,365,075.00	1.400	1.380	1.400	07/08/2030 3,020
31422BX54	2425 Call	Federal Agricultural Mortgage	10/08/2020	2,000,000.00	2,000,000.00	1,802,420.00	1.300	1.286	1.304	09/27/2030 3,101
31422BZ45	2435 Call	Federal Agricultural Mortgage	10/21/2020	2,000,000.00	2,000,000.00	1,799,000.00	1.280	1.262	1.280	10/21/2030 3,125
31422B2E9	2439 Call	Federal Agricultural Mortgage	10/29/2020	2,000,000.00	2,000,000.00	1,805,600.00	1.340	1.321	1.340	10/29/2030 3,133
31422B3D0	2449	Federal Agricultural Mortgage	11/20/2020	1,500,000.00	1,500,000.00	1,311,105.00	1.150	1.134	1.150	11/20/2030 3,155
31422B4A5	2458 Call	Federal Agricultural Mortgage	12/11/2020	1,500,000.00	1,500,000.00	1,350,240.00	1.300	1.282	1.300	12/11/2030 3,176
31422B3W8	2459 Call	Federal Agricultural Mortgage	12/16/2020	2,000,000.00	2,000,000.00	1,819,600.00	1.450	1.430	1.450	12/16/2030 3,181
31422B3D0	2461	Federal Agricultural Mortgage	12/09/2020	999,131.81	1,000,000.00	874,070.00	1.150	1.144	1.160	11/20/2030 3,155
31422B6K1	2471	Federal Agricultural Mortgage	01/15/2021	1,498,863.33	1,500,000.00	1,390,035.00	0.480	0.493	0.500	01/15/2026 1,385
31422B6A3	2473 Call	Federal Agricultural Mortgage	01/15/2021	1,494,067.50	1,500,000.00	1,345,695.00	1.290	1.319	1.338	01/15/2031 3,211
31422B7E4	2484 Call	Federal Agricultural Mortgage	01/28/2021	1,000,000.00	1,000,000.00	898,560.00	1.320	1.301	1.320	01/28/2031 3,224
31422XAW2	2496 Call	Federal Agricultural Mortgage	02/25/2021	1,500,000.00	1,500,000.00	1,364,955.00	1.530	1.509	1.530	02/25/2031 3,252
31422XCB6	2513	Federal Agricultural Mortgage	03/04/2021	989,075.80	1,000,000.00	894,290.00	1.470	1.581	1.602	03/04/2031 3,259
31422XDX7	2519	Federal Agricultural Mortgage	03/29/2021	1,499,401.00	1,500,000.00	1,403,850.00	0.830	0.828	0.840	03/27/2026 1,456
31422XDX7	2524	Federal Agricultural Mortgage	03/31/2021	1,494,363.14	1,500,000.00	1,403,850.00	0.830	0.913	0.926	03/27/2026 1,456
31422XEE8	2527 Call	Federal Agricultural Mortgage	04/07/2021	1,496,167.50	1,500,000.00	1,408,725.00	2.070	2.074	2.103	04/07/2031 3,293
31422XEL2	2529	Federal Agricultural Mortgage	04/15/2021	2,005,158.28	2,000,000.00	1,856,860.00	1.375	1.311	1.330	04/13/2028 2,204
31422XFJ6	2530	Federal Agricultural Mortgage	04/29/2021	1,501,225.50	1,500,000.00	1,360,575.00	1.660	1.627	1.650	04/29/2031 3,315
31422XDX7	2533	Federal Agricultural Mortgage	05/20/2021	1,497,308.42	1,500,000.00	1,403,850.00	0.830	0.864	0.876	03/27/2026 1,456
31422XDX7	2540	Federal Agricultural Mortgage	06/08/2021	254,982.63	255,000.00	238,654.50	0.830	0.820	0.831	03/27/2026 1,456

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CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
<b>Federal Agency Bonds</b>											
31422XNM0	2593	Federal Agricultural Mortgage	10/05/2021	1,000,000.00	1,000,000.00	937,000.00	1.050	1.035	1.050	10/05/2026	1,648
31422XPS5	2621	Federal Agricultural Mortgage	11/17/2021	993,724.73	1,000,000.00	938,950.00	1.150	1.272	1.290	11/17/2026	1,691
31422XQM7	2625	Federal Agricultural Mortgage	12/01/2021	1,000,000.00	1,000,000.00	945,630.00	1.320	1.301	1.320	12/01/2026	1,705
31422XRK0	2634	Federal Agricultural Mortgage	01/04/2022	1,500,000.00	1,500,000.00	1,416,060.00	1.320	1.301	1.320	01/04/2027	1,739
31422XRY0	2640 Call	Federal Agricultural Mortgage	12/29/2021	1,500,000.00	1,500,000.00	1,407,555.00	2.150	2.120	2.150	12/29/2031	3,559
3133ECRH9	1241	Federal Farm Credit Bank .	01/09/2014	495,089.98	500,000.00	503,905.00	2.450	3.383	3.430	06/06/2023	431
3133EAA65	1526	Federal Farm Credit Bank .	01/27/2016	625,554.37	625,000.00	626,118.75	2.125	2.024	2.052	07/26/2023	481
3133ECPF5	1596	Federal Farm Credit Bank .	04/21/2016	1,000,304.51	1,000,000.00	1,001,250.00	1.875	1.578	1.600	05/13/2022	42
3133EC7D0	1615	Federal Farm Credit Bank .	05/13/2016	1,004,158.52	1,000,000.00	992,000.00	2.125	1.930	1.956	12/13/2024	987
3133EEVD9	1787	Federal Farm Credit Bank .	05/04/2017	899,893.81	900,000.00	901,953.00	2.300	2.274	2.306	03/25/2024	724
3133EDWX6	1822	Federal Farm Credit Bank .	06/21/2017	508,530.41	500,000.00	506,555.00	2.910	2.143	2.172	10/07/2024	920
3133ED6R8	1843	Federal Farm Credit Bank .	09/14/2017	447,615.42	445,000.00	450,175.35	2.930	1.870	1.896	11/07/2022	220
3133EJDE6	1932	Federal Farm Credit Bank .	02/16/2018	1,499,120.18	1,500,000.00	1,515,180.00	2.570	2.605	2.642	02/16/2023	321
3133EEG79	2016	Federal Farm Credit Bank .	01/15/2019	496,357.91	500,000.00	500,895.00	2.150	2.656	2.693	09/07/2023	524
3133EC2C7	2017	Federal Farm Credit Bank .	01/15/2019	644,457.88	650,000.00	650,559.00	2.130	2.662	2.699	11/09/2023	587
3133EAG44	2314	Federal Farm Credit Bank .	03/13/2020	1,063,729.60	1,000,000.00	1,003,700.00	2.630	1.089	1.104	08/03/2026	1,585
3133ELQ31	2371 Call	Federal Farm Credit Bank .	07/01/2020	1,500,000.00	1,500,000.00	1,327,200.00	1.330	1.311	1.330	07/01/2030	3,013
3133ELQ31	2372 Call	Federal Farm Credit Bank .	07/01/2020	1,500,000.00	1,500,000.00	1,327,200.00	1.330	1.311	1.330	07/01/2030	3,013
3133EL3H5	2391 Call	Federal Farm Credit Bank .	08/12/2020	1,498,738.54	1,500,000.00	1,403,565.00	0.570	0.587	0.595	08/12/2025	1,229
3133EL4W1	2406 Call	Federal Farm Credit Bank .	09/03/2020	1,499,487.72	1,500,000.00	1,397,865.00	0.610	0.611	0.620	08/25/2025	1,242
3133EL4W1	2408 Call	Federal Farm Credit Bank .	09/10/2020	1,499,485.71	1,500,000.00	1,397,865.00	0.610	0.611	0.620	08/25/2025	1,242
3133EL7K4	2416 Call	Federal Farm Credit Bank .	09/22/2020	1,500,000.00	1,500,000.00	1,400,985.00	0.550	0.542	0.549	09/16/2025	1,264
3133EMBH4	2417 Call	Federal Farm Credit Bank .	09/29/2020	1,500,000.00	1,500,000.00	1,394,220.00	0.530	0.522	0.530	09/29/2025	1,277
3133EMBJ0	2423 Call	Federal Farm Credit Bank .	09/29/2020	1,499,213.75	1,500,000.00	1,394,190.00	0.530	0.537	0.545	09/29/2025	1,277
3133EMAZ5	2427 Call	Federal Farm Credit Bank .	10/01/2020	1,997,885.38	2,000,000.00	1,775,580.00	1.250	1.246	1.263	06/24/2030	3,006
3133EMFG2	2442 Call	Federal Farm Credit Bank .	11/04/2020	1,500,000.00	1,500,000.00	1,315,830.00	1.370	1.351	1.370	11/04/2030	3,139
3133EMFG2	2443 Call	Federal Farm Credit Bank .	11/04/2020	1,500,000.00	1,500,000.00	1,315,830.00	1.370	1.351	1.370	11/04/2030	3,139
3133EMNB4	2472 Call	Federal Farm Credit Bank .	01/14/2021	1,500,000.00	1,500,000.00	1,355,385.00	1.380	1.361	1.380	01/14/2031	3,210
3133EMRE4	2525 Call	Federal Farm Credit Bank .	04/01/2021	1,446,679.22	1,500,000.00	1,344,810.00	1.420	1.834	1.859	02/18/2031	3,245
3133EMUG5	2538 Call	Federal Farm Credit Bank .	05/27/2021	1,005,383.76	1,000,000.00	935,410.00	1.980	1.887	1.913	03/24/2031	3,279
3133827E7	1699	Federal Home Loan Bank	10/05/2016	502,126.04	500,000.00	502,410.00	2.130	1.578	1.600	02/06/2023	311
3130A3VC5	1886	Federal Home Loan Bank	01/03/2018	997,771.02	1,000,000.00	999,770.00	2.250	2.359	2.392	12/08/2023	616

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CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Days To Date Maturity
<b>Federal Agency Bonds</b>										
3130A3DL5	1896	Federal Home Loan Bank	01/09/2018	999,541.70	1,000,000.00	1,003,550.00	2.375	2.376	2.409	09/08/2023 525
3130ADEV0	1903	Federal Home Loan Bank	01/18/2018	499,856.92	500,000.00	503,630.00	2.380	2.385	2.418	01/17/2023 291
3130AJMF3	2347 Call	Federal Home Loan Bank	05/28/2020	1,500,000.00	1,500,000.00	1,394,115.00	1.320	1.301	1.320	11/28/2028 2,433
3130AJP78	2358 Call	Federal Home Loan Bank	06/11/2020	1,000,000.00	1,000,000.00	924,930.00	1.400	1.380	1.400	06/11/2029 2,628
3130AJP78	2361 Call	Federal Home Loan Bank	06/11/2020	996,802.47	1,000,000.00	924,930.00	1.400	1.427	1.447	06/11/2029 2,628
3130AJR76	2368 Call	Federal Home Loan Bank	06/29/2020	900,000.00	900,000.00	822,357.00	1.250	1.232	1.250	06/29/2029 2,646
3130AJRG6	2369 Call	Federal Home Loan Bank	06/24/2020	1,500,000.00	1,500,000.00	1,369,125.00	1.360	1.341	1.360	06/24/2030 3,006
3130AJSR1	2375 Call	Federal Home Loan Bank	07/09/2020	1,500,000.00	1,500,000.00	1,337,595.00	1.390	1.370	1.390	07/09/2030 3,021
3130AJSR1	2377 Call	Federal Home Loan Bank	07/09/2020	1,500,000.00	1,500,000.00	1,337,595.00	1.390	1.370	1.390	07/09/2030 3,021
3130AJSR1	2384 Call	Federal Home Loan Bank	07/09/2020	1,498,635.08	1,500,000.00	1,337,595.00	1.390	1.382	1.401	07/09/2030 3,021
3130AJZ36	2395 Call	Federal Home Loan Bank	08/27/2020	1,498,978.33	1,500,000.00	1,402,575.00	0.600	0.611	0.620	08/27/2025 1,244
3130AJZ36	2399 Call	Federal Home Loan Bank	08/27/2020	1,498,978.33	1,500,000.00	1,402,575.00	0.600	0.611	0.620	08/27/2025 1,244
3130AK3Z7	2405 Call	Federal Home Loan Bank	09/29/2020	1,498,951.67	1,500,000.00	1,410,075.00	0.570	0.582	0.590	09/29/2025 1,277
3130AJZ36	2411 Call	Federal Home Loan Bank	09/16/2020	1,180,000.00	1,180,000.00	1,103,359.00	0.600	0.591	0.599	08/27/2025 1,244
3130AKAZ91	2419 Call	Federal Home Loan Bank	09/29/2020	1,500,000.00	1,500,000.00	1,407,705.00	0.520	0.512	0.520	09/29/2025 1,277
3130AJQS1	2445 Call	Federal Home Loan Bank	11/04/2020	1,199,672.09	1,200,000.00	1,094,364.00	1.350	1.334	1.353	06/25/2030 3,007
3130AKQN9	2475 Call	Federal Home Loan Bank	01/28/2021	1,500,000.00	1,500,000.00	1,355,625.00	1.400	1.380	1.400	01/09/2031 3,205
3130AKQV1	2476 Call	Federal Home Loan Bank	01/28/2021	1,500,000.00	1,500,000.00	1,354,710.00	1.400	1.380	1.400	01/28/2031 3,224
3130AKVH6	2485 Call	Federal Home Loan Bank	02/10/2021	1,500,000.00	1,500,000.00	1,319,745.00	1.350	1.331	1.350	02/10/2031 3,237
3130AKYB6	2490 Call	Federal Home Loan Bank	02/18/2021	2,000,000.00	2,000,000.00	1,804,900.00	1.400	1.380	1.400	02/18/2031 3,245
3130AL2J2	2494 Call	Federal Home Loan Bank	02/26/2021	1,500,000.00	1,500,000.00	1,362,255.00	1.500	1.479	1.500	02/26/2031 3,253
3130ALF66	2500 Call	Federal Home Loan Bank	02/25/2021	1,500,000.00	1,500,000.00	1,377,510.00	1.625	1.602	1.625	02/25/2031 3,252
3130ALF33	2520 Call	Federal Home Loan Bank	03/25/2021	1,916,422.95	1,925,000.00	1,802,435.25	0.750	0.853	0.865	03/16/2026 1,445
3130APPJ8	2607 Call	Federal Home Loan Bank	11/04/2021	1,000,000.00	1,000,000.00	940,420.00	2.000	1.972	2.000	11/04/2031 3,504
3130APV77	2613 Call	Federal Home Loan Bank	12/10/2021	1,000,000.00	1,000,000.00	959,380.00	1.500	1.479	1.500	12/10/2026 1,714
3130APW84	2616 Call	Federal Home Loan Bank	12/03/2021	1,000,000.00	1,000,000.00	960,000.00	1.500	1.479	1.500	12/03/2026 1,707
3130APXD2	2618 Call	Federal Home Loan Bank	12/17/2021	1,000,000.00	1,000,000.00	961,260.00	1.550	1.528	1.550	12/17/2026 1,721
3130APWY7	2619 Call	Federal Home Loan Bank	12/07/2021	1,000,000.00	1,000,000.00	955,060.00	1.350	1.331	1.350	12/07/2026 1,711
3130APXT7	2620 Call	Federal Home Loan Bank	12/17/2021	1,000,000.00	1,000,000.00	957,220.00	1.600	1.578	1.600	12/17/2026 1,721
3130AQX65	2662 Call	Federal Home Loan Bank	03/04/2022	1,000,000.00	1,000,000.00	980,340.00	2.250	2.219	2.250	03/04/2027 1,798
3130AQYA5	2663 Call	Federal Home Loan Bank	02/28/2022	1,000,000.00	1,000,000.00	979,200.00	2.250	2.219	2.250	02/24/2027 1,790
3130AQYG2	2664 Call	Federal Home Loan Bank	02/28/2022	1,500,000.00	1,500,000.00	1,479,885.00	2.500	2.470	2.504	02/25/2027 1,791

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CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
<b>Federal Agency Bonds</b>											
3130AQZD8	2665 Call	Federal Home Loan Bank	02/25/2022	1,000,000.00	1,000,000.00	987,150.00	2.625	2.589	2.625	02/25/2027	1,791
3134GVUA4	2345 Call	Fed. Home Loan Mortgage Corp.	05/18/2020	455,000.00	455,000.00	421,916.95	1.200	1.183	1.200	05/18/2028	2,239
3134GV3B2	2370 Call	Fed. Home Loan Mortgage Corp.	06/30/2020	1,500,000.00	1,500,000.00	1,373,535.00	1.400	1.380	1.400	06/28/2030	3,010
3134GV3U0	2373 Call	Fed. Home Loan Mortgage Corp.	06/29/2020	1,500,000.00	1,500,000.00	1,351,155.00	1.250	1.232	1.250	06/29/2029	2,646
3134GV4E5	2379 Call	Fed. Home Loan Mortgage Corp.	07/01/2020	1,500,000.00	1,500,000.00	1,376,625.00	1.200	1.183	1.199	12/29/2028	2,464
3134GV5D6	2380 Call	Fed. Home Loan Mortgage Corp.	07/08/2020	1,500,000.00	1,500,000.00	1,364,175.00	1.200	1.183	1.200	01/08/2029	2,474
3134GV5A2	2382 Call	Fed. Home Loan Mortgage Corp.	07/15/2020	1,500,000.00	1,500,000.00	1,370,190.00	1.375	1.356	1.375	07/15/2030	3,027
3134GV7L6	2386 Call	Fed. Home Loan Mortgage Corp.	07/29/2020	1,500,000.00	1,500,000.00	1,354,350.00	1.350	1.331	1.350	07/29/2030	3,041
3134GV7L6	2387 Call	Fed. Home Loan Mortgage Corp.	07/29/2020	1,500,000.00	1,500,000.00	1,354,350.00	1.350	1.331	1.350	07/29/2030	3,041
3134GWNOC6	2396 Call	Fed. Home Loan Mortgage Corp.	08/20/2020	1,000,000.00	1,000,000.00	936,280.00	0.625	0.616	0.625	08/19/2025	1,236
3134GWC53	2400 Call	Fed. Home Loan Mortgage Corp.	09/15/2020	1,500,000.00	1,500,000.00	1,402,125.00	0.650	0.641	0.650	09/15/2025	1,263
3134GWA55	2404 Call	Fed. Home Loan Mortgage Corp.	09/09/2020	1,447,000.00	1,447,000.00	1,352,901.59	0.650	0.641	0.650	09/09/2025	1,257
3134GWD52	2407 Call	Fed. Home Loan Mortgage Corp.	09/04/2020	1,500,000.00	1,500,000.00	1,413,420.00	0.680	0.670	0.679	09/02/2025	1,250
3134GWP75	2409 Call	Fed. Home Loan Mortgage Corp.	09/23/2020	1,500,000.00	1,500,000.00	1,400,160.00	0.625	0.616	0.625	09/23/2025	1,271
3134GWP75	2410 Call	Fed. Home Loan Mortgage Corp.	09/23/2020	1,000,000.00	1,000,000.00	933,440.00	0.625	0.616	0.625	09/23/2025	1,271
3134GWV5	2418 Call	Fed. Home Loan Mortgage Corp.	10/15/2020	1,500,000.00	1,500,000.00	1,392,765.00	0.500	0.493	0.500	10/15/2025	1,293
3134GWW93	2421 Call	Fed. Home Loan Mortgage Corp.	09/30/2020	2,000,000.00	2,000,000.00	1,861,160.00	0.550	0.542	0.550	09/30/2025	1,278
3134GWW93	2422 Call	Fed. Home Loan Mortgage Corp.	09/30/2020	1,500,000.00	1,500,000.00	1,395,870.00	0.550	0.542	0.550	09/30/2025	1,278
3134GWXK7	2424 Call	Fed. Home Loan Mortgage Corp.	09/30/2020	1,500,000.00	1,500,000.00	1,395,870.00	0.550	0.542	0.550	09/30/2025	1,278
3134GWXX9	2426 Call	Fed. Home Loan Mortgage Corp.	10/15/2020	1,500,000.00	1,500,000.00	1,394,745.00	0.550	0.542	0.550	10/15/2025	1,293
3134GWY26	2428 Call	Fed. Home Loan Mortgage Corp.	10/08/2020	1,500,000.00	1,500,000.00	1,396,200.00	0.570	0.562	0.570	10/08/2025	1,286
3134GWYZ3	2430 Call	Fed. Home Loan Mortgage Corp.	10/28/2020	1,500,000.00	1,500,000.00	1,392,750.00	0.530	0.522	0.530	10/28/2025	1,306
3134GWZ33	2431 Call	Fed. Home Loan Mortgage Corp.	10/22/2020	1,500,000.00	1,500,000.00	1,354,845.00	1.250	1.232	1.250	10/22/2030	3,126
3134GWZL3	2432 Call	Fed. Home Loan Mortgage Corp.	10/29/2020	1,500,000.00	1,500,000.00	1,394,310.00	0.570	0.562	0.570	10/29/2025	1,307
3134GW3T1	2433 Call	Fed. Home Loan Mortgage Corp.	10/28/2020	2,000,000.00	2,000,000.00	1,826,540.00	1.400	1.380	1.400	10/28/2030	3,132
3134GW3H7	2434 Call	Fed. Home Loan Mortgage Corp.	10/29/2020	1,500,000.00	1,500,000.00	1,396,830.00	0.610	0.601	0.610	10/29/2025	1,307
3134GWZZ2	2436 Call	Fed. Home Loan Mortgage Corp.	10/28/2020	2,000,000.00	2,000,000.00	1,811,000.00	1.300	1.282	1.300	10/28/2030	3,132
3134GW3Z7	2437 Call	Fed. Home Loan Mortgage Corp.	10/28/2020	750,000.00	750,000.00	701,940.00	0.600	0.591	0.600	10/28/2025	1,306
3134GW3X2	2438 Call	Fed. Home Loan Mortgage Corp.	10/27/2020	1,500,000.00	1,500,000.00	1,405,260.00	0.625	0.616	0.625	10/27/2025	1,305
3134GW6N1	2440 Call	Fed. Home Loan Mortgage Corp.	11/05/2020	1,500,000.00	1,500,000.00	1,369,620.00	1.400	1.380	1.400	11/05/2030	3,140
3134GW6N1	2444 Call	Fed. Home Loan Mortgage Corp.	11/05/2020	1,500,000.00	1,500,000.00	1,369,620.00	1.400	1.380	1.400	11/05/2030	3,140
31364CCC0	1715	Federal National Mortgage Asso	11/10/2016	585,770.68	500,000.00	588,605.00	7.125	2.367	2.400	04/30/2026	1,490



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CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
<b>Federal Agency Bonds</b>											
3136G05L1	1883	Federal National Mortgage Asso	12/29/2017	499,486.23	500,000.00	502,125.00	2.000	2.238	2.270	08/26/2022	147
3135G0T78	1894	Federal National Mortgage Asso	01/09/2018	998,457.68	1,000,000.00	1,004,240.00	2.000	2.288	2.320	10/05/2022	187
3135G0T78	1904	Federal National Mortgage Asso	01/19/2018	997,871.87	1,000,000.00	1,004,240.00	2.000	2.409	2.443	10/05/2022	187
3135G0T94	1926	Federal National Mortgage Asso	02/08/2018	1,497,369.49	1,500,000.00	1,509,780.00	2.375	2.574	2.610	01/19/2023	293
3136G4R62	2392 Call	Federal National Mortgage Asso	08/28/2020	1,000,000.00	1,000,000.00	933,620.00	0.625	0.616	0.625	08/28/2025	1,245
3136G4S87	2393 Call	Federal National Mortgage Asso	08/27/2020	1,000,000.00	1,000,000.00	935,730.00	0.650	0.641	0.650	08/27/2025	1,244
3136G4Q97	2394 Call	Federal National Mortgage Asso	08/27/2020	1,500,000.00	1,500,000.00	1,408,515.00	0.650	0.641	0.650	08/27/2025	1,244
3136G4V59	2397 Call	Federal National Mortgage Asso	08/27/2020	1,500,000.00	1,500,000.00	1,407,150.00	0.625	0.616	0.625	08/27/2025	1,244
3136G44G5	2412 Call	Federal National Mortgage Asso	09/22/2020	1,500,000.00	1,500,000.00	1,400,160.00	0.515	0.507	0.515	09/22/2025	1,270
3136G43L5	2413 Call	Federal National Mortgage Asso	09/30/2020	1,500,000.00	1,500,000.00	1,401,630.00	0.550	0.542	0.550	09/30/2025	1,278
3136G44L4	2415 Call	Federal National Mortgage Asso	09/25/2020	1,500,000.00	1,500,000.00	1,404,735.00	0.600	0.591	0.600	09/25/2025	1,273
3135G05Q2	2460	Federal National Mortgage Asso	12/07/2020	1,955,898.72	2,000,000.00	1,746,360.00	0.875	1.139	1.155	08/05/2030	3,048
3135GAAS0	2463 Call	Federal National Mortgage Asso	12/23/2020	1,500,000.00	1,500,000.00	1,356,450.00	1.400	1.380	1.400	12/23/2030	3,188
3135G06Q1	2467 Call	Federal National Mortgage Asso	12/30/2020	1,001,266.56	1,000,000.00	930,480.00	0.640	0.597	0.605	12/30/2025	1,369
799017WD6	2153 MUN	San Mateo Foster City SCH Dist	11/07/2019	1,340,995.99	1,360,000.00	1,325,496.80	2.237	2.447	2.480	09/01/2028	2,345
880591EN8	1133	Tennessee Valley Authority	12/14/2012	1,009,845.84	1,010,000.00	1,012,484.60	1.875	1.893	1.920	08/15/2022	136
880591CJ9	1508	Tennessee Valley Authority	11/20/2015	1,121,064.03	1,000,000.00	1,146,680.00	6.750	2.807	2.846	11/01/2025	1,310
880591ER9	1519	Tennessee Valley Authority	01/15/2016	754,502.87	750,000.00	755,332.50	2.875	2.564	2.600	09/15/2024	898
880591CJ9	1589	Tennessee Valley Authority	04/18/2016	883,295.09	775,000.00	888,677.00	6.750	2.337	2.370	11/01/2025	1,310
880591EN8	1703	Tennessee Valley Authority	10/07/2016	1,491,662.25	1,490,000.00	1,493,665.40	1.875	1.538	1.560	08/15/2022	136
880591CJ9	1714	Tennessee Valley Authority	11/10/2016	1,426,751.16	1,250,000.00	1,433,350.00	6.750	2.317	2.350	11/01/2025	1,310
<b>Subtotal and Average</b>				<b>233,495,265.07</b>	<b>232,590,000.00</b>	<b>220,914,423.97</b>		<b>1.467</b>	<b>1.487</b>		<b>1,754</b>
<b>Treasury Securities (Notes)</b>											
912828L57	1866 TB	U.S. Treasury	10/06/2017	1,498,645.05	1,500,000.00	1,505,160.00	1.750	1.914	1.941	09/30/2022	182
912828P38	1898 TB	U.S. Treasury	01/11/2018	1,493,065.63	1,500,000.00	1,502,580.00	1.750	2.308	2.340	01/31/2023	305
912828N30	1905 TB	U.S. Treasury	01/22/2018	1,498,976.88	1,500,000.00	1,507,620.00	2.125	2.387	2.420	12/31/2022	274
912828P38	1923 TB	U.S. Treasury	02/05/2018	1,490,118.65	1,500,000.00	1,502,580.00	1.750	2.560	2.596	01/31/2023	305
912828P38	1925 TB	U.S. Treasury	02/08/2018	993,977.43	1,000,000.00	1,001,720.00	1.750	2.487	2.521	01/31/2023	305
912828P79	1929 TB	U.S. Treasury	02/09/2018	990,903.23	1,000,000.00	998,670.00	1.500	2.534	2.570	02/28/2023	333
912828P79	1934 TB	U.S. Treasury	02/15/2018	990,341.19	1,000,000.00	998,670.00	1.500	2.601	2.638	02/28/2023	333
91282CBC4	2505 TB	U.S. Treasury	02/26/2021	1,479,756.68	1,500,000.00	1,385,100.00	0.375	0.731	0.742	12/31/2025	1,370
91282CBQ3	2516 TB	U.S. Treasury	03/09/2021	1,480,995.17	1,500,000.00	1,386,795.00	0.500	0.819	0.831	02/28/2026	1,429

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CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
<b>Treasury Securities (Notes)</b>											
91282CCP4	2587 TB	U.S. Treasury	09/24/2021	1,482,484.55	1,500,000.00	1,384,095.00	0.625	0.888	0.901	07/31/2026	1,582
<b>Subtotal and Average</b>				<b>13,399,264.46</b>	<b>13,500,000.00</b>	<b>13,172,990.00</b>		<b>1.857</b>	<b>1.883</b>		<b>675</b>
<b>Municipal Bonds</b>											
004284ZY4	2334 MUN	Acalanes Union High School Dis	03/25/2020	486,891.84	485,000.00	488,157.35	2.900	1.677	1.700	08/01/2022	122
010878AS5	2173 MUN	County of Alameda	12/05/2019	311,317.18	290,000.00	306,489.40	4.000	2.139	2.168	08/01/2026	1,583
010831DS1	2005 MUN	Alameda County Joint Pws Auth.	12/24/2018	507,074.71	505,000.00	514,544.50	3.365	3.175	3.220	06/01/2025	1,157
010831DT9	2566 MUN	Alameda County Joint Pws Auth.	08/13/2021	120,977.33	110,000.00	112,470.60	3.395	0.925	0.938	06/01/2026	1,522
03667PFL1	1790 MUN	Antelope Valley Community Coll	05/09/2017	220,211.40	220,000.00	221,216.60	2.608	2.266	2.298	08/01/2022	122
03667PFN7	2069 MUN	Antelope Valley Community Coll	08/16/2019	512,451.76	500,000.00	504,280.00	3.026	1.876	1.902	08/01/2024	853
041042ZW5	1913 MUN	State of Arkansas	01/26/2018	320,178.47	320,000.00	321,097.60	2.875	2.486	2.520	06/01/2022	61
072024XC1	2558 MUN	Bay Area Toll Authority	07/26/2021	1,772,582.79	1,750,000.00	1,625,995.00	1.079	0.739	0.750	04/01/2026	1,461
088006KA8	2612 MUN	Beverly Hills Public Fing Auth	11/15/2021	349,249.08	350,000.00	326,672.50	1.147	1.183	1.200	06/01/2026	1,522
121457EQ4	1548 MUN	Burlingame School District	02/24/2016	504,693.14	470,000.00	499,854.40	6.238	3.557	3.606	08/01/2025	1,218
12082SDN1	2570 MUN	Burbank Unified School Distri.	08/30/2021	1,017,176.74	1,000,000.00	940,410.00	1.367	0.947	0.960	08/01/2026	1,583
127109QD1	2119 MUN	Cabrillo Community College Dis	10/08/2019	2,000,000.00	2,000,000.00	1,936,260.00	2.385	2.342	2.375	08/01/2027	1,948
142665DJ4	1857 MUN	Carlsbad Unified School Dist .	09/27/2017	332,158.26	305,000.00	331,516.70	5.234	2.850	2.890	08/01/2026	1,583
13034AL73	2666 MUN	CA Infrastructure -Econ Dev Bk	02/16/2022	199,109.51	210,000.00	195,444.90	1.035	2.224	2.254	10/01/2026	1,644
13067WRC8	2633 MUN	CA ST Dept of WTR Resources	12/13/2021	176,602.39	180,000.00	168,309.00	0.790	1.301	1.320	12/01/2025	1,340
13067WRD6	2645 MUN	CA ST Dept of WTR Resources	12/23/2021	292,862.36	300,000.00	276,195.00	0.920	1.430	1.450	12/01/2026	1,705
15722TJR3	2564 MUN	Chabot-Las Positas CCD	08/16/2021	287,047.40	285,000.00	263,935.65	1.080	0.897	0.910	08/01/2026	1,583
15722TJQ5	2589 MUN	Chabot-Las Positas CCD	09/29/2021	124,876.27	125,000.00	117,286.25	0.880	0.897	0.910	08/01/2025	1,218
17131RAU0	2653 MUN	City of Chula Vista	01/10/2022	965,607.21	1,000,000.00	910,690.00	0.840	1.676	1.700	06/01/2026	1,522
13124MCE3	2544 MUN	Calleguas Municipal Water Dist	07/01/2021	565,760.59	550,000.00	517,583.00	1.865	1.425	1.445	07/01/2029	2,648
13124MCB9	2646 MUN	Calleguas Municipal Water Dist	12/27/2021	596,212.68	600,000.00	562,968.00	1.097	1.233	1.250	07/01/2026	1,552
21969AAJ1	2601 MUN	City of Corona	10/14/2021	505,929.70	500,000.00	455,385.00	2.242	2.052	2.081	05/01/2030	2,952
156792GW7	1876 MUN	Cerritos Community College Dis	11/30/2017	55,089.64	55,000.00	55,374.00	2.971	2.416	2.450	08/01/2022	122
212204JJ1	2103 MUN	Contra Costa Community College	09/12/2019	402,594.31	400,000.00	382,188.00	2.213	2.071	2.100	08/01/2028	2,314
212204JK8	2120 MUN	Contra Costa Community College	09/20/2019	972,320.85	990,000.00	936,282.60	2.263	2.505	2.539	08/01/2029	2,679
212204JK8	2244 MUN	Contra Costa Community College	02/07/2020	1,513,176.80	1,500,000.00	1,418,610.00	2.263	2.100	2.130	08/01/2029	2,679
212204JF9	2291 MUN	Contra Costa Community College	03/09/2020	327,986.49	320,000.00	310,918.40	1.918	1.128	1.143	08/01/2025	1,218
212204LM1	2555 MUN	Contra Costa Community College	08/02/2021	1,022,268.37	1,000,000.00	937,700.00	1.300	0.764	0.775	08/01/2026	1,583
2463807H6	1952 MUN	State of Delaware	05/03/2018	1,501,861.88	1,500,000.00	1,510,200.00	3.500	2.927	2.967	07/01/2022	91

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<b>Municipal Bonds</b>											
250375JX1	2611 MUN	Desert Community Clg Dist	11/12/2021	196,626.25	200,000.00	184,554.00	1.169	1.479	1.500	08/01/2027	1,948
250433UA5	2635 MUN	Desert Sands Unif Sch District	12/16/2021	901,033.11	880,000.00	851,180.00	1.982	1.390	1.410	08/01/2026	1,583
3130AQSM6	2659 Call	Federal Home Loan Bank	02/25/2022	1,000,000.00	1,000,000.00	974,760.00	2.050	2.021	2.050	02/25/2027	1,791
357172VA0	1646 MUN	Fremont Union High School Distr	06/28/2016	578,503.48	525,000.00	571,226.25	6.080	2.994	3.035	02/01/2026	1,402
357172C52	2595 MUN	Fremont Union High School Distr	10/01/2021	238,365.84	235,000.00	215,476.20	2.020	1.825	1.851	08/01/2031	3,409
359819DN6	1916 MUN	Fullerton School District	02/14/2018	998,387.64	995,000.00	1,010,253.35	3.160	3.028	3.070	08/01/2026	1,583
359819DM8	1917 MUN	Fullerton School District	02/14/2018	750,884.26	750,000.00	755,002.50	3.040	2.959	3.000	08/01/2025	1,218
359819DN6	2085 MUN	Fullerton School District	08/29/2019	382,973.12	365,000.00	370,595.45	3.160	1.913	1.940	08/01/2026	1,583
373384RU2	1613 MUN	State of Georgia	05/17/2016	503,913.86	500,000.00	505,900.00	3.570	1.878	1.904	10/01/2022	183
373384W69	1645 MUN	State of Georgia	06/27/2016	368,767.00	365,000.00	369,905.60	3.250	1.898	1.925	02/01/2023	306
3733844V5	1666 MUN	State of Georgia	07/29/2016	1,842,745.65	1,825,000.00	1,808,867.00	2.375	1.972	1.999	02/01/2025	1,037
373384RU2	1691 MUN	State of Georgia	09/26/2016	388,504.69	385,000.00	389,543.00	3.570	1.630	1.653	10/01/2022	183
373384RX6	1775 MUN	State of Georgia	04/10/2017	259,475.81	250,000.00	260,272.50	4.000	2.739	2.777	10/01/2025	1,279
373384RY4	1919 MUN	State of Georgia	01/26/2018	1,150,550.03	1,095,000.00	1,162,747.65	4.310	2.979	3.020	10/01/2026	1,644
373384RY4	1945 MUN	State of Georgia	03/19/2018	208,270.62	200,000.00	212,374.00	4.310	3.204	3.248	10/01/2026	1,644
373384SP2	1962 MUN	State of Georgia	10/25/2018	393,247.94	390,000.00	398,814.00	3.740	3.093	3.136	10/01/2023	548
373385BU6	1967 MUN	State of Georgia	10/31/2018	339,183.59	350,000.00	348,117.00	2.720	3.412	3.460	02/01/2027	1,767
373384PB6	1980 MUN	State of Georgia	11/30/2018	1,274,380.64	1,200,000.00	1,331,376.00	5.014	3.649	3.700	11/01/2027	2,040
373384RV0	2086 MUN	State of Georgia	08/29/2019	1,542,046.26	1,500,000.00	1,533,465.00	3.720	1.749	1.774	10/01/2023	548
373384RY4	2229 MUN	State of Georgia	01/31/2020	468,815.81	425,000.00	451,294.75	4.310	1.837	1.863	10/01/2026	1,644
373384RW8	2332 MUN	State of Georgia	03/23/2020	1,045,401.42	1,000,000.00	1,027,670.00	3.820	1.889	1.915	10/01/2024	914
378612AL9	2109 MUN	City of Glendora	09/16/2019	1,338,637.70	1,345,000.00	1,297,037.30	2.265	2.318	2.350	06/01/2028	2,253
378612AL9	2137 MUN	City of Glendora	10/02/2019	400,888.28	400,000.00	385,736.00	2.265	2.194	2.225	06/01/2028	2,253
378612AJ4	2590 MUN	City of Glendora	09/29/2021	1,421,287.99	1,365,000.00	1,328,240.55	2.108	1.075	1.090	06/01/2026	1,522
419792DA1	1685 MUN	State of Hawaii	10/19/2016	1,073,389.87	1,045,000.00	1,056,620.40	3.150	2.431	2.465	10/01/2026	1,644
419792NH5	1944 MUN	State of Hawaii	03/20/2018	996,723.36	1,000,000.00	1,003,050.00	1.921	2.584	2.620	10/01/2022	183
419792NH5	1947 MUN	State of Hawaii	03/29/2018	1,494,531.75	1,500,000.00	1,504,575.00	1.921	2.663	2.700	10/01/2022	183
419791YS1	1961 MUN	State of Hawaii	10/25/2018	261,512.30	250,000.00	267,075.00	5.230	3.363	3.410	02/01/2025	1,037
419791YV4	1981 MUN	State of Hawaii	11/30/2018	542,636.17	500,000.00	567,725.00	5.480	3.687	3.739	02/01/2028	2,132
419791YT9	1995 MUN	State of Hawaii	12/06/2018	853,575.08	800,000.00	871,072.00	5.330	3.304	3.350	02/01/2026	1,402
419792NH5	2019 MUN	State of Hawaii	01/17/2019	747,410.31	750,000.00	752,287.50	1.921	2.613	2.650	10/01/2022	183
446201AE5	2560 MUN	City of Huntington Beach	08/12/2021	1,017,311.54	1,000,000.00	932,260.00	1.344	0.909	0.921	06/15/2026	1,536

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CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
<b>Municipal Bonds</b>											
446201AE5	2562 MUN	City of Huntington Beach	08/13/2021	1,016,565.35	1,000,000.00	932,260.00	1.344	0.927	0.939	06/15/2026	1,536
503433AK0	2660 MUN	City of La Habra	02/07/2022	499,901.58	500,000.00	465,805.00	2.673	2.638	2.675	08/01/2031	3,409
544290JH3	2681 MUN	Los Altos Elementary Sch Distr	03/24/2022	481,230.98	500,000.00	480,880.00	1.000	2.522	2.557	10/01/2024	914
544351KS7	1748 MUN	City of Los Angeles	02/14/2017	1,000,385.15	1,000,000.00	1,005,050.00	2.640	2.784	2.823	09/01/2023	518
544351KR9	1879 MUN	City of Los Angeles	12/11/2017	1,090,220.24	1,090,000.00	1,095,384.60	2.440	2.355	2.388	09/01/2022	153
544351NP0	1969 MUN	City of Los Angeles	11/02/2018	291,836.95	295,000.00	300,495.85	3.300	3.530	3.579	09/01/2026	1,614
544351MS5	2008 MUN	City of Los Angeles	01/07/2019	1,014,808.82	1,000,000.00	1,026,860.00	3.500	3.077	3.119	09/01/2026	1,614
544351NQ8	2200 MUN	City of Los Angeles	01/06/2020	881,618.87	840,000.00	863,578.80	3.400	2.360	2.393	09/01/2027	1,979
544351LQ0	2213 MUN	City of Los Angeles	01/22/2020	1,024,057.68	985,000.00	1,001,528.30	3.050	2.413	2.446	09/01/2029	2,710
544351KV0	2283 MUN	City of Los Angeles	03/05/2020	1,067,377.61	1,000,000.00	1,012,450.00	3.150	1.519	1.541	09/01/2026	1,614
54438CYN6	2487 MUN	Los Angeles Community College	01/28/2021	1,027,467.89	1,000,000.00	904,710.00	1.806	1.432	1.452	08/01/2030	3,044
54438CYL0	2592 MUN	Los Angeles Community College	09/30/2021	251,001.32	250,000.00	233,832.50	1.174	1.064	1.078	08/01/2026	1,583
54438CYL0	2614 MUN	Los Angeles Community College	11/15/2021	1,495,198.58	1,500,000.00	1,402,995.00	1.174	1.233	1.250	08/01/2026	1,583
54438CYL0	2642 MUN	Los Angeles Community College	12/21/2021	273,545.02	275,000.00	257,215.75	1.174	1.282	1.300	08/01/2026	1,583
5447122K7	2641 MUN	Los Angeles Cnty Met Tran Auth	12/21/2021	1,124,933.93	1,000,000.00	1,071,010.00	5.130	1.085	1.100	06/01/2025	1,157
544495VX9	1949 MUN	Los Angeles Dept. of WTR & PWR	03/29/2018	1,649,271.43	1,500,000.00	1,677,960.00	5.516	3.254	3.300	07/01/2027	1,917
544495VX9	1965 MUN	Los Angeles Dept. of WTR & PWR	10/29/2018	460,400.12	425,000.00	475,422.00	5.516	3.600	3.650	07/01/2027	1,917
544525NW4	1975 MUN	Los Angeles Dept. of WTR & PWR	11/07/2018	301,383.49	300,000.00	303,261.00	5.181	3.166	3.210	07/01/2022	91
57582PUT5	2227 MUN	State of Massachusetts	01/30/2020	290,292.07	250,000.00	277,622.50	4.910	2.331	2.363	05/01/2029	2,587
57582PUT5	2543 MUN	State of Massachusetts	07/01/2021	1,227,067.55	1,000,000.00	1,110,490.00	4.910	1.484	1.505	05/01/2029	2,587
5741925D8	1943 MUN	State of Maryland	03/20/2018	1,298,892.97	1,280,000.00	1,312,089.60	4.400	2.633	2.670	03/01/2023	334
5741926L9	1958 MUN	State of Maryland	10/19/2018	1,716,197.96	1,690,000.00	1,755,115.70	4.200	3.413	3.461	08/01/2024	853
5741926N5	2184 MUN	State of Maryland	12/16/2019	534,874.07	500,000.00	527,230.00	4.350	2.089	2.118	08/01/2025	1,218
5741926N5	2581 MUN	State of Maryland	09/23/2021	274,355.52	245,000.00	258,342.70	4.350	0.690	0.700	08/01/2025	1,218
574204WH2	2134 MUN	State of Maryland - Dept/Trans	10/15/2019	1,029,308.15	1,000,000.00	1,029,330.00	4.450	1.893	1.920	06/15/2023	440
5946108C4	2002 MUN	State of Michigan	12/21/2018	835,390.92	825,000.00	826,518.00	3.850	3.452	3.500	05/15/2026	1,505
562784AM0	2647 MUN	City of Manhattan Beach	01/05/2022	659,326.49	650,000.00	614,243.50	2.341	2.129	2.159	01/01/2032	3,562
586840ND8	2104 MUN	Menlo Park City School Dist.	10/08/2019	1,000,000.00	1,000,000.00	961,700.00	2.214	2.183	2.214	07/01/2027	1,917
56781RGU5	1858 MUN	Marin Community College Dist.	09/28/2017	510,217.78	500,000.00	511,405.00	3.272	2.791	2.830	08/01/2027	1,948
56781RGT8	1973 MUN	Marin Community College Dist.	11/05/2018	118,514.36	120,000.00	121,897.20	3.172	3.452	3.500	08/01/2026	1,583
56781RJL2	2084 MUN	Marin Community College Dist.	08/29/2019	267,621.32	250,000.00	256,415.00	3.330	1.874	1.900	08/01/2027	1,948
56781RJJ7	2287 MUN	Marin Community College Dist.	03/06/2020	347,796.73	310,000.00	332,233.20	5.000	1.193	1.210	08/01/2025	1,218

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<b>Municipal Bonds</b>											
56781RKH9	2495 MUN	Marin Community College Dist.	02/25/2021	1,000,000.00	1,000,000.00	902,470.00	1.451	1.431	1.451	08/01/2030	3,044
56781RKH9	2499 MUN	Marin Community College Dist.	02/25/2021	707,804.77	710,000.00	640,753.70	1.451	1.470	1.490	08/01/2030	3,044
56781RKU0	2568 MUN	Marin Community College Dist.	09/14/2021	1,000,000.00	1,000,000.00	923,560.00	0.893	0.880	0.893	08/01/2026	1,583
56781RKD8	2588 MUN	Marin Community College Dist.	09/29/2021	280,661.19	285,000.00	260,746.50	0.679	1.025	1.040	08/01/2026	1,583
623040GX4	1489 MUN	Mt. San Antonio Community Coll	10/26/2015	1,360,354.59	1,335,000.00	1,372,593.60	4.103	2.490	2.525	08/01/2023	487
623040KQ4	2208 MUN	Mt. San Antonio Community Coll	02/04/2020	230,000.00	230,000.00	227,757.50	2.569	2.533	2.569	08/01/2029	2,679
623040KX9	2661 MUN	Mt. San Antonio Community Coll	02/07/2022	811,464.83	785,000.00	775,038.35	2.649	2.173	2.203	08/01/2030	3,044
605581LM7	1968 MUN	State of Mississippi	11/07/2018	1,519,453.81	1,500,000.00	1,569,390.00	3.751	3.377	3.424	11/01/2026	1,675
605581LM7	1972 MUN	State of Mississippi	11/07/2018	505,982.25	500,000.00	523,130.00	3.751	3.401	3.449	11/01/2026	1,675
605581HL4	2087 MUN	State of Mississippi	08/30/2019	773,138.23	750,000.00	757,455.00	2.987	1.745	1.770	12/01/2024	975
605581HL4	2090 MUN	State of Mississippi	09/04/2019	514,931.64	500,000.00	504,970.00	2.987	1.783	1.807	12/01/2024	975
6055805W5	2096 MUN	State of Mississippi	09/09/2019	164,002.51	150,000.00	160,449.00	4.681	1.888	1.914	11/01/2025	1,310
6055805V7	2189 MUN	State of Mississippi	12/19/2019	264,673.24	250,000.00	261,902.50	4.511	2.079	2.108	11/01/2024	945
605581LJ4	2329 MUN	State of Mississippi	03/20/2020	1,026,916.27	1,000,000.00	1,018,290.00	3.408	1.626	1.649	11/01/2023	579
605581QR1	2626 MUN	State of Mississippi	12/09/2021	1,008,307.93	1,000,000.00	930,350.00	2.117	1.992	2.020	10/01/2031	3,470
605581LL9	2629 MUN	State of Mississippi	12/06/2021	272,308.74	250,000.00	258,640.00	3.646	1.080	1.095	11/01/2025	1,310
630337AL7	2055 MUN	City of Napa Solid Waste	08/08/2019	597,681.58	595,000.00	587,229.30	2.200	1.968	1.996	08/01/2024	853
64985HWS2	2007 MUN	New York St Envrnmntl Facs	01/04/2019	442,624.97	450,000.00	445,414.50	2.120	2.860	2.900	07/15/2024	836
6500357D4	2097 MUN	New York State Urban Dev Corp.	09/09/2019	724,975.24	700,000.00	701,897.00	3.070	2.071	2.100	03/15/2026	1,444
650036AV8	2683 MUN	New York State Urban Dev Corp.	03/28/2022	939,332.02	1,000,000.00	927,130.00	1.496	2.777	2.816	03/15/2027	1,809
64986DEE1	1933 MUN	New York State Envrnmntl Corp	02/15/2018	1,999,136.62	2,000,000.00	2,007,180.00	2.438	2.624	2.661	06/15/2022	75
649791CN8	2022 MUN	New York State Envrnmntl Corp	01/22/2019	1,016,332.66	1,000,000.00	1,025,660.00	4.690	2.752	2.791	03/01/2023	334
649791CN8	2024 MUN	New York State Envrnmntl Corp	02/08/2019	1,016,353.38	1,000,000.00	1,025,660.00	4.690	2.751	2.790	03/01/2023	334
649791PQ7	2146 MUN	New York State Envrnmntl Corp	10/31/2019	1,501,196.83	1,500,000.00	1,476,825.00	2.120	2.063	2.091	02/15/2025	1,051
649791PS3	2224 MUN	New York State Envrnmntl Corp	01/30/2020	590,506.29	580,000.00	567,211.00	2.360	1.933	1.960	02/15/2027	1,781
649791PR5	2575 MUN	New York State Envrnmntl Corp	09/13/2021	1,582,851.93	1,500,000.00	1,471,095.00	2.260	0.794	0.805	02/15/2026	1,416
649791PS3	2677 MUN	New York State Envrnmntl Corp	03/16/2022	1,000,079.32	1,000,000.00	977,950.00	2.360	2.325	2.358	02/15/2027	1,781
649791PS3	2678 MUN	New York State Envrnmntl Corp	03/21/2022	998,150.54	1,000,000.00	977,950.00	2.360	2.367	2.400	02/15/2027	1,781
672240WY0	2293 MUN	City of Oakland	03/09/2020	1,570,835.40	1,500,000.00	1,422,825.00	2.110	1.436	1.456	01/15/2030	2,846
672240WY0	2307 MUN	City of Oakland	03/13/2020	1,548,199.19	1,500,000.00	1,422,825.00	2.110	1.638	1.661	01/15/2030	2,846
672240WY0	2313 MUN	City of Oakland	03/16/2020	1,067,241.52	1,080,000.00	1,024,434.00	2.110	2.247	2.279	01/15/2030	2,846
672240WX2	2316 MUN	City of Oakland	03/16/2020	1,489,621.26	1,500,000.00	1,431,240.00	2.070	2.151	2.181	01/15/2029	2,481

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<b>Municipal Bonds</b>											
672319CF5	2630 MUN	City of Oakland Pension	12/06/2021	499,748.26	450,000.00	476,392.50	4.676	1.562	1.584	12/15/2025	1,354
677765GY9	2165 MUN	Ohlone Community College Distr	11/22/2019	598,061.28	600,000.00	586,962.00	2.237	2.271	2.303	08/01/2027	1,948
677765GY9	2175 MUN	Ohlone Community College Distr	12/06/2019	278,325.73	280,000.00	273,915.60	2.237	2.327	2.360	08/01/2027	1,948
677765HA0	2179 MUN	Ohlone Community College Distr	12/11/2019	965,055.52	970,000.00	943,800.30	2.337	2.382	2.415	08/01/2029	2,679
677765GZ6	2341 MUN	Ohlone Community College Distr	05/08/2020	1,213,495.19	1,185,000.00	1,156,654.80	2.287	1.849	1.875	08/01/2028	2,314
677522JB1	1688 MUN	State of Ohio	09/13/2016	802,613.07	800,000.00	801,696.00	2.110	1.764	1.788	05/01/2023	395
677522JB1	1742 MUN	State of Ohio	01/31/2017	1,991,822.13	2,000,000.00	2,004,240.00	2.110	2.485	2.520	05/01/2023	395
6775207G7	1832 MUN	State of Ohio	06/30/2017	941,577.56	900,000.00	940,977.00	4.971	2.416	2.450	04/01/2024	731
677521CT1	2308 MUN	State of Ohio	03/13/2020	573,380.41	500,000.00	551,205.00	5.262	1.710	1.734	09/01/2026	1,614
68442CCY0	2578 MUN	Orange Cnty Water District	09/16/2021	329,590.75	315,000.00	308,035.35	2.095	0.690	0.700	08/15/2025	1,232
685585FD8	1910 MUN	Orchard School District	01/25/2018	198,859.79	200,000.00	202,508.00	3.125	3.208	3.253	08/01/2027	1,948
68609BGH4	1682 MUN	State of Oregon	08/29/2016	570,430.26	570,000.00	570,809.40	2.500	1.528	1.550	05/01/2022	30
68607LXQ5	1974 MUN	State of Oregon	11/06/2018	543,967.07	500,000.00	554,800.00	5.892	3.516	3.565	06/01/2027	1,887
68608USE7	2003 MUN	State of Oregon	12/21/2018	297,106.39	300,000.00	303,465.00	2.877	3.156	3.200	08/01/2025	1,218
68607LXQ5	2015 MUN	State of Oregon	01/16/2019	490,412.32	445,000.00	493,772.00	5.892	3.537	3.587	06/01/2027	1,887
68609TDT2	2223 MUN	State of Oregon	01/30/2020	587,837.17	570,000.00	578,544.30	3.227	1.641	1.664	05/01/2024	761
68607LXQ5	2230 MUN	State of Oregon	01/31/2020	570,678.75	495,000.00	549,252.00	5.892	2.583	2.619	06/01/2027	1,887
68607LXQ5	2266 MUN	State of Oregon	02/24/2020	1,158,402.06	1,000,000.00	1,109,600.00	5.892	2.482	2.517	06/01/2027	1,887
68609BXT9	2310 MUN	State of Oregon	03/13/2020	379,764.40	350,000.00	355,225.50	3.080	1.302	1.320	05/01/2027	1,856
68609TVS4	2378 MUN	State of Oregon	07/02/2020	360,895.49	355,000.00	321,885.60	1.672	1.433	1.452	06/01/2030	2,983
68608KA24	2542 MUN	State of Oregon	07/01/2021	1,092,099.83	870,000.00	1,002,022.50	5.332	1.943	1.970	08/01/2030	3,044
68609TU30	2549 MUN	State of Oregon	07/08/2021	1,249,810.80	1,225,000.00	1,130,074.75	1.484	1.134	1.150	08/01/2028	2,314
68609TT81	2584 MUN	State of Oregon	09/24/2021	265,894.16	265,000.00	249,375.60	0.803	0.690	0.700	08/01/2025	1,218
68609TZT8	2624 MUN	State of Oregon	11/19/2021	246,584.04	250,000.00	232,492.50	0.984	1.292	1.310	08/01/2026	1,583
68609T3M8	2627 MUN	State of Oregon	11/26/2021	899,061.99	900,000.00	829,656.00	2.037	2.020	2.048	11/01/2031	3,501
69511AAS3	2138 MUN	City of Pacifica	10/23/2019	1,016,748.84	1,015,000.00	1,004,565.80	2.563	2.469	2.503	06/01/2025	1,157
69511AAT1	2139 MUN	City of Pacifica	10/23/2019	580,329.27	580,000.00	574,234.80	2.663	2.611	2.647	06/01/2026	1,522
702274CP4	1985 MUN	Pasadena CA Public Finance Aut	12/06/2018	666,907.20	665,000.00	676,783.80	3.438	3.205	3.250	12/01/2023	609
70227RBM1	2573 MUN	Pasadena CA Public Finance Aut	09/09/2021	125,115.81	120,000.00	116,020.80	1.984	0.903	0.915	05/01/2026	1,491
702274CS8	2615 MUN	Pasadena CA Public Finance Aut	12/01/2021	601,877.47	550,000.00	568,727.50	3.500	1.380	1.400	12/01/2026	1,705
697511FU2	2582 MUN	Polomar Community Clge Distri	10/13/2021	1,000,000.00	1,000,000.00	931,870.00	1.031	1.016	1.031	08/01/2026	1,583
697511FD0	2676 MUN	Polomar Community Clge Distri	03/15/2022	319,607.18	335,000.00	314,983.75	1.199	2.288	2.320	08/01/2026	1,583



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<b>Municipal Bonds</b>										
757710UE6	2388 MUN	Redondo Beach Unified School D	08/06/2020	761,666.20	750,000.00	672,262.50	1.660	1.439	1.459	08/01/2030 3,044
76222RYN6	2192 MUN	State of Rhode Island	12/20/2019	259,689.61	260,000.00	254,891.00	2.000	2.231	2.262	01/15/2025 1,020
76222RXB3	2219 MUN	State of Rhode Island	01/27/2020	1,594,052.45	1,500,000.00	1,536,840.00	3.250	2.077	2.106	04/01/2028 2,192
76222RXB3	2239 MUN	State of Rhode Island	02/06/2020	587,291.46	550,000.00	563,508.00	3.250	1.990	2.018	04/01/2028 2,192
76886PJP9	2596 MUN	Riverside Cmnty College Distt.	10/04/2021	1,370,982.42	1,365,000.00	1,273,954.50	1.124	1.006	1.020	08/01/2026 1,583
752147HH4	2522 MUN	Rancho Santiago Comm College D	03/29/2021	450,000.00	450,000.00	429,264.00	0.634	0.625	0.633	09/01/2024 884
757889EH9	2130 MUN	Redwood City School District	10/16/2019	1,000,000.00	1,000,000.00	977,660.00	2.284	2.252	2.284	08/01/2027 1,948
757889EG1	2253 MUN	Redwood City School District	02/13/2020	1,113,219.33	1,095,000.00	1,067,416.95	2.159	1.727	1.751	08/01/2026 1,583
801139AE6	2603 MUN	City of Santa Ana	10/18/2021	174,529.42	175,000.00	161,194.25	1.176	1.223	1.240	08/01/2026 1,583
801315KU5	2385 MUN	Santa Barbara Unified School D	07/21/2020	494,971.40	490,000.00	446,987.80	1.653	1.483	1.504	08/01/2029 2,679
796720NC0	2166 MUN	San Bernardino Cmty College Di	12/12/2019	1,500,000.00	1,500,000.00	1,480,065.00	2.590	2.554	2.590	08/01/2028 2,314
796720NV8	2365 MUN	San Bernardino Cmty College Di	07/07/2020	2,000,000.00	2,000,000.00	1,854,940.00	1.848	1.822	1.848	08/01/2029 2,679
801546PH9	1897 MUN	County of Santa Clara	01/11/2018	1,340,495.26	1,340,000.00	1,348,723.40	2.500	2.436	2.470	08/01/2023 487
801546PJ5	1899 MUN	County of Santa Clara	01/12/2018	1,460,000.00	1,460,000.00	1,467,752.60	2.680	2.643	2.680	08/01/2024 853
801686TF3	2557 MUN	Santa Clarita Community Colleg	08/02/2021	1,271,006.67	1,250,000.00	1,165,312.50	1.146	0.742	0.752	08/01/2026 1,583
80168ACV7	2181 MUN	Santa Clara Valley Water Dist.	12/12/2019	1,553,607.39	1,555,000.00	1,528,067.40	2.434	2.416	2.450	06/01/2028 2,253
80181PCT2	1906 MUN	Santa Cruz County Capital Fin.	01/25/2018	460,351.22	465,000.00	463,163.25	2.500	2.968	3.010	06/01/2024 792
80181PCU9	1907 MUN	Santa Cruz County Capital Fin.	01/25/2018	461,063.32	465,000.00	462,684.30	2.750	3.008	3.050	06/01/2025 1,157
80181PCV7	1908 MUN	Santa Cruz County Capital Fin.	01/25/2018	467,735.93	470,000.00	470,756.70	3.000	3.107	3.150	06/01/2026 1,522
80181PCW5	1909 MUN	Santa Cruz County Capital Fin.	01/25/2018	272,248.04	275,000.00	275,772.75	3.000	3.205	3.250	06/01/2027 1,887
801747AF3	2671 MUN	Santa Cruz MET Transit Dist.	03/03/2022	1,020,658.73	1,000,000.00	977,100.00	2.470	2.030	2.058	08/01/2027 1,948
797356DL3	2602 MUN	San Diego Unified Sch District	10/21/2021	1,011,287.65	1,000,000.00	910,640.00	1.984	1.824	1.850	07/01/2031 3,378
797356DL3	2606 MUN	San Diego Unified Sch District	10/23/2021	894,844.61	900,000.00	819,576.00	1.984	2.024	2.053	07/01/2031 3,378
797356DH2	2617 MUN	San Diego Unified Sch District	11/17/2021	267,821.26	270,000.00	250,352.10	1.599	1.712	1.736	07/01/2028 2,283
797272QS3	2550 MUN	San Diego Community College Di	07/09/2021	273,230.98	255,000.00	249,979.05	2.407	1.007	1.021	08/01/2027 1,948
797272RN3	2639 MUN	San Diego Community College Di	12/28/2021	1,999,545.58	1,980,000.00	1,873,674.00	1.445	1.193	1.210	08/01/2026 1,583
797272RT0	2651 MUN	San Diego Community College Di	01/10/2022	498,442.55	500,000.00	464,530.00	2.113	2.120	2.150	08/01/2031 3,409
797400MR6	2632 MUN	San Diego Regl Trans Commissio	12/08/2021	197,873.90	200,000.00	186,584.00	1.036	1.292	1.310	04/01/2026 1,461
797412DN0	2580 MUN	San Diego Cnty Wtr Authority	09/17/2021	877,473.56	875,000.00	813,076.25	0.971	0.887	0.900	05/01/2026 1,491
797412DM2	2600 MUN	San Diego Cnty Wtr Authority	10/08/2021	209,318.69	210,000.00	197,397.90	0.743	0.838	0.850	05/01/2025 1,126
797412DN0	2604 MUN	San Diego Cnty Wtr Authority	10/20/2021	248,222.21	250,000.00	232,307.50	0.971	1.134	1.150	05/01/2026 1,491
797412DN0	2623 MUN	San Diego Cnty Wtr Authority	11/19/2021	740,234.41	750,000.00	696,922.50	0.971	1.282	1.300	05/01/2026 1,491

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<b>Municipal Bonds</b>											
797508JW9	2536 MUN	San Dieguito Union High Sch Di	06/09/2021	430,000.00	430,000.00	400,953.50	1.074	1.059	1.074	08/01/2026	1,583
797508JX7	2537 MUN	San Dieguito Union High Sch Di	06/09/2021	435,000.00	435,000.00	403,288.50	1.372	1.353	1.372	08/01/2027	1,948
797508HF8	2674 MUN	San Dieguito Union High Sch Di	03/11/2022	430,713.65	435,000.00	419,466.15	1.860	2.070	2.099	08/01/2026	1,583
817409N35	2320 MUN	Sequoia Union High School Dist	03/18/2020	404,180.77	400,000.00	386,556.00	1.735	1.381	1.400	07/01/2025	1,187
817409N76	2531 MUN	Sequoia Union High School Dist	04/30/2021	257,099.63	250,000.00	238,035.00	2.103	1.658	1.681	07/01/2029	2,648
797646NL6	1441 MUN	City & County of San Francisco	02/09/2015	361,683.27	360,000.00	362,944.80	4.950	2.416	2.450	06/15/2022	75
797646NC6	1509 MUN	City & County of San Francisco	11/27/2015	1,064,460.20	1,000,000.00	1,078,040.00	5.450	3.067	3.110	06/15/2025	1,171
797646T48	1711 MUN	City & County of San Francisco	11/01/2016	2,107,426.04	2,105,000.00	2,073,214.50	2.290	2.219	2.249	06/15/2025	1,171
797646T55	1712 MUN	City & County of San Francisco	11/01/2016	244,814.75	245,000.00	240,085.30	2.390	2.376	2.410	06/15/2026	1,536
797646T48	1839 MUN	City & County of San Francisco	07/14/2017	227,163.33	230,000.00	226,527.00	2.290	2.682	2.720	06/15/2025	1,171
797646ND4	2014 MUN	City & County of San Francisco	01/16/2019	1,538,078.27	1,420,000.00	1,571,826.40	5.600	3.304	3.350	06/15/2026	1,536
797646C5	2148 MUN	City & County of San Francisco	10/31/2019	1,100,600.71	1,120,000.00	1,072,769.60	2.100	2.337	2.369	06/15/2029	2,632
79772EBC2	1937 MUN	San Francisco Cmnty Facs Dist	03/02/2018	672,243.69	680,000.00	671,472.80	3.250	3.451	3.499	09/01/2027	1,979
79772ECL1	2132 MUN	San Francisco Cmnty Facs Dist	10/11/2019	377,903.70	350,000.00	351,438.50	3.648	2.398	2.431	09/01/2029	2,710
79772ECJ6	2309 MUN	San Francisco Cmnty Facs Dist	03/13/2020	142,351.41	130,000.00	129,755.60	3.468	1.577	1.599	09/01/2027	1,979
79772ECF4	2571 MUN	San Francisco Cmnty Facs Dist	08/30/2021	316,878.12	300,000.00	299,355.00	3.108	0.741	0.752	09/01/2024	884
79772EDY2	2608 MUN	San Francisco Cmnty Facs Dist	11/03/2021	587,218.52	575,000.00	525,699.50	2.591	2.305	2.337	09/01/2031	3,440
79772EDA4	2628 MUN	San Francisco Cmnty Facs Dist	11/29/2021	1,338,523.32	1,295,000.00	1,231,350.75	2.236	1.425	1.445	09/01/2026	1,614
797669XW3	2029 MUN	SF Bay Area Rapid Transit Dist	02/25/2019	199,790.23	200,000.00	201,510.00	2.621	2.672	2.710	07/01/2023	456
797669ZJ0	2572 MUN	SF Bay Area Rapid Transit Dist	09/08/2021	517,276.41	500,000.00	492,735.00	1.971	0.419	0.425	07/01/2024	822
797669ZR2	2636 MUN	SF Bay Area Rapid Transit Dist	12/16/2021	516,268.32	480,000.00	473,217.60	2.768	1.846	1.872	07/01/2031	3,378
797669XW3	2638 MUN	SF Bay Area Rapid Transit Dist	12/20/2021	615,215.06	600,000.00	604,530.00	2.621	0.572	0.580	07/01/2023	456
826239GD1	2501 MUN	Sierra Joint Com. College Dist	03/09/2021	585,000.00	585,000.00	536,626.35	1.445	1.425	1.445	08/01/2029	2,679
826239GD1	2535 MUN	Sierra Joint Com. College Dist	05/27/2021	498,744.57	500,000.00	458,655.00	1.445	1.461	1.481	08/01/2029	2,679
798135E96	2656 MUN	City of San Jose	01/28/2022	361,692.22	350,000.00	346,143.00	2.500	1.686	1.710	09/01/2026	1,614
798153NF5	2622 MUN	San Jose Financing Authority	11/18/2021	342,658.10	345,000.00	324,210.30	1.311	1.459	1.480	06/01/2026	1,522
798189PK6	1966 MUN	San Jose Evergreen Cmnty Colll	10/29/2018	315,000.00	315,000.00	326,428.20	3.728	3.676	3.727	09/01/2027	1,979
798189QA7	2105 MUN	San Jose Evergreen Cmnty Colll	10/01/2019	500,000.00	500,000.00	476,365.00	2.350	2.317	2.350	08/01/2028	2,314
798186C83	1435 MUN	San Jose Unified School Dist.	01/29/2015	578,626.18	580,000.00	582,789.80	2.500	2.663	2.700	08/01/2023	487
798186N81	2518 MUN	San Jose Unified School Dist.	03/15/2021	993,710.66	1,000,000.00	929,960.00	0.558	0.739	0.750	08/01/2025	1,218
802385QW7	2025 MUN	Santa Monica Cmnty College Dis	02/19/2019	215,106.98	215,000.00	216,382.45	2.908	2.714	2.752	08/01/2022	122
802385RC0	2091 MUN	Santa Monica Cmnty College Dis	09/05/2019	341,774.57	315,000.00	324,037.35	3.472	1.972	2.000	08/01/2028	2,314

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<b>Municipal Bonds</b>											
802385RV8	2481 MUN	Santa Monica Cmnty College Dis	01/22/2021	577,757.47	570,000.00	513,205.20	1.696	1.499	1.520	08/01/2030	3,044
802385RT3	2482 MUN	Santa Monica Cmnty College Dis	01/22/2021	614,409.45	600,000.00	549,318.00	1.496	1.085	1.100	08/01/2028	2,314
802498VW2	2561 MUN	Santa Monica-Malibu USD	08/12/2021	652,668.58	650,000.00	606,086.00	0.989	0.877	0.890	07/01/2026	1,552
802498ZA6	2637 MUN	Santa Monica-Malibu USD	12/20/2021	211,736.87	215,000.00	199,016.90	0.849	1.193	1.210	08/01/2026	1,583
799038NP5	2521 MUN	San Mateo Cnty Comm. College D	04/14/2021	2,002,387.67	2,000,000.00	1,906,140.00	0.500	0.444	0.450	09/01/2024	884
799038NP5	2523 MUN	San Mateo Cnty Comm. College D	04/14/2021	1,501,790.76	1,500,000.00	1,429,605.00	0.500	0.444	0.450	09/01/2024	884
799017UW6	1902 MUN	San Mateo Foster City SCH Dist	01/16/2018	996,141.97	1,000,000.00	1,002,620.00	2.699	2.786	2.825	09/01/2025	1,249
799017UW6	1940 MUN	San Mateo Foster City SCH Dist	03/09/2018	990,843.54	1,000,000.00	1,002,620.00	2.699	2.959	3.000	09/01/2025	1,249
799017VM7	2178 MUN	San Mateo Foster City SCH Dist	12/11/2019	1,582,880.03	1,565,000.00	1,553,231.20	2.542	2.311	2.343	09/01/2028	2,345
799017XW3	2567 MUN	San Mateo Foster City SCH Dist	09/21/2021	500,000.00	500,000.00	465,190.00	0.925	0.912	0.925	09/01/2026	1,614
799055QV3	2585 MUN	San Mateo Foster City SCH Dist	09/27/2021	181,579.24	175,000.00	169,153.25	1.799	0.897	0.910	08/01/2026	1,583
799055ME5	2591 MUN	San Mateo Foster City SCH Dist	09/29/2021	1,517,408.96	1,320,000.00	1,452,396.00	6.000	2.297	2.329	08/01/2026	1,583
83412PFQ0	2176 MUN	Solano Cnty Community Clg Dist	12/09/2019	1,164,348.54	1,150,000.00	1,136,545.00	2.717	2.462	2.496	08/01/2028	2,314
83412PHQ8	2579 MUN	Solano Cnty Community Clg Dist	10/06/2021	750,000.00	750,000.00	695,520.00	1.025	1.011	1.025	08/01/2026	1,583
83412PGZ9	2583 MUN	Solano Cnty Community Clg Dist	10/06/2021	201,055.59	200,000.00	185,472.00	1.025	0.887	0.900	08/01/2026	1,583
83412PHE5	2594 MUN	Solano Cnty Community Clg Dist	10/06/2021	386,218.93	390,000.00	351,709.80	1.861	1.948	1.975	08/01/2031	3,409
83412PHU9	2597 MUN	Solano Cnty Community Clg Dist	10/06/2021	744,309.45	750,000.00	680,377.50	1.761	1.834	1.860	08/01/2030	3,044
83412PHW5	2598 MUN	Solano Cnty Community Clg Dist	10/06/2021	821,901.01	825,000.00	744,001.50	1.861	1.879	1.905	08/01/2031	3,409
83412PHB1	2649 MUN	Solano Cnty Community Clg Dist	01/07/2022	343,312.87	350,000.00	321,048.00	1.479	1.775	1.800	08/01/2028	2,314
835569GT5	2577 MUN	Sonoma Cnty Jr. College Distr.	09/15/2021	165,450.00	155,000.00	153,651.50	2.447	0.843	0.855	08/01/2026	1,583
839278JM1	1914 MUN	South Pasadena Unified School	02/15/2018	179,171.62	180,000.00	181,432.80	3.000	3.057	3.100	08/01/2027	1,948
839278KC1	2161 MUN	South Pasadena Unified School	12/12/2019	426,360.99	370,000.00	419,457.90	5.000	2.598	2.634	08/01/2029	2,679
839278KB3	2162 MUN	South Pasadena Unified School	12/12/2019	284,082.66	250,000.00	280,275.00	5.000	2.549	2.584	08/01/2028	2,314
839278KA5	2163 MUN	South Pasadena Unified School	12/12/2019	162,236.70	145,000.00	160,391.75	5.000	2.500	2.534	08/01/2027	1,948
839278JZ2	2164 MUN	South Pasadena Unified School	12/12/2019	430,201.77	390,000.00	424,858.20	5.000	2.378	2.411	08/01/2026	1,583
799289MR1	2150 MUN	San Rafael City High Sch Distr	11/13/2019	1,755,000.00	1,755,000.00	1,730,658.15	1.965	1.938	1.965	08/01/2024	853
7994082K4	2605 MUN	San Ramon Vly Unif Sch Dist.	11/03/2021	1,509,634.69	1,500,000.00	1,374,405.00	1.914	1.805	1.830	08/01/2030	3,044
867578UT1	2100 MUN	Sunnyvale Elementary Sch Distr	09/19/2019	135,000.00	135,000.00	130,659.75	2.190	2.157	2.187	09/01/2028	2,345
867578US3	2101 MUN	Sunnyvale Elementary Sch Distr	09/19/2019	135,000.00	135,000.00	131,172.75	2.090	2.061	2.090	09/01/2027	1,979
892404CN2	2493 MUN	Tracy Unified School District	02/08/2021	506,416.25	500,000.00	459,030.00	1.644	1.437	1.457	08/01/2029	2,679
87970GPS0	2539 MUN	Temecula Valley Unified School	06/16/2021	250,000.00	250,000.00	231,865.00	1.503	1.482	1.503	08/01/2028	2,314
87970GPQ4	2569 MUN	Temecula Valley Unified School	08/27/2021	357,266.40	355,000.00	329,585.55	1.051	0.887	0.900	08/01/2026	1,583

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CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Days To Date Maturity	
Municipal Bonds											
880541XY8	1673 MUN	State of Tennessee	08/25/2016	1,006,504.36	1,000,000.00	973,470.00	2.116	1.923	1.950	08/01/2026 1,583	
880541XX0	1674 MUN	State of Tennessee	08/25/2016	1,657,341.59	1,650,000.00	1,613,436.00	2.066	1.893	1.920	08/01/2025 1,218	
880541XX0	1676 MUN	State of Tennessee	08/25/2016	703,114.62	700,000.00	684,488.00	2.066	1.893	1.920	08/01/2025 1,218	
880541QU4	2001 MUN	State of Tennessee	12/20/2018	208,628.04	205,000.00	209,977.40	3.728	2.860	2.900	08/01/2024 853	
882722VJ7	1708 MUN	State of Texas	10/19/2016	110,000.00	110,000.00	110,000.00	3.673	1.825	1.850	04/01/2022 0	
882723EN5	1855 MUN	State of Texas	09/22/2017	257,778.37	250,000.00	251,470.00	3.832	2.747	2.785	08/01/2025 1,218	
8827237P8	2195 MUN	State of Texas	12/23/2019	1,551,679.40	1,500,000.00	1,523,070.00	3.051	1.975	2.003	10/01/2025 1,279	
8827237T0	2225 MUN	State of Texas	01/30/2020	1,022,023.84	940,000.00	979,555.20	3.521	2.191	2.221	10/01/2029 2,740	
8827237T0	2255 MUN	State of Texas	02/14/2020	1,375,336.31	1,265,000.00	1,318,231.20	3.521	2.192	2.222	10/01/2029 2,740	
8827237N3	2311 MUN	State of Texas	03/16/2020	259,999.08	250,000.00	252,185.00	2.899	1.231	1.248	10/01/2024 914	
8827235K1	2541 MUN	State of Texas	06/30/2021	264,183.36	245,000.00	247,719.50	2.922	0.641	0.650	10/01/2025 1,279	
882724RF6	2548 MUN	State of Texas	07/02/2021	1,073,140.34	1,000,000.00	969,410.00	2.426	1.480	1.501	10/01/2030 3,105	
882723A90	2631 MUN	State of Texas	12/07/2021	530,555.46	500,000.00	504,040.00	2.831	1.030	1.045	10/01/2025 1,279	
91412GQG3	2077 MUN	University of California	08/26/2019	1,548,156.22	1,500,000.00	1,506,000.00	3.050	1.930	1.957	05/15/2025 1,140	
91412GQG3	2095 MUN	University of California	09/09/2019	1,036,258.06	1,000,000.00	1,004,000.00	3.050	1.797	1.821	05/15/2025 1,140	
917542QR6	1731 MUN	State of Utah	01/04/2017	464,524.59	450,000.00	461,268.00	4.554	2.904	2.944	07/01/2024 822	
917542QV7	2306 MUN	State of Utah	03/13/2020	1,572,012.03	1,500,000.00	1,521,765.00	3.539	1.948	1.975	07/01/2025 1,187	
93974DHW1	1672 MUN	State of Washington	08/08/2016	250,966.25	250,000.00	251,605.00	2.740	1.504	1.524	08/01/2022 122	
93974CPH7	1721 MUN	State of Washington	12/05/2016	518,398.70	515,000.00	521,365.40	4.636	2.465	2.500	08/01/2022 122	
93974CRC6	1802 MUN	State of Washington	05/23/2017	507,890.28	485,000.00	507,334.25	4.669	2.416	2.450	08/01/2024 853	
93974CRC6	2196 MUN	State of Washington	12/24/2019	529,536.87	500,000.00	523,025.00	4.669	1.978	2.005	08/01/2024 853	
97705MNU5	2547 MUN	State of Wisconsin	07/02/2021	2,146,877.42	2,000,000.00	1,913,320.00	2.451	1.553	1.575	05/01/2031 3,317	
97705MNP6	2574 MUN	State of Wisconsin	09/09/2021	1,580,445.57	1,500,000.00	1,460,790.00	2.089	0.739	0.750	05/01/2026 1,491	
97705MNP6	2576 MUN	State of Wisconsin	09/13/2021	1,052,384.17	1,000,000.00	973,860.00	2.089	0.769	0.780	05/01/2026 1,491	
987388GX7	2657 MUN	Yosemite Community College Dis	02/17/2022	1,000,000.00	1,000,000.00	966,750.00	2.082	2.053	2.082	08/01/2027 1,948	
Subtotal and Average				208,659,864.23	203,795,000.00	201,315,567.55		2.006	2.034	1,648	
Supranationals (World Bank) Bonds											
4581X0CZ9	1978 IADB	Inter-American Dev. Bank	11/09/2018	1,491,108.32	1,500,000.00	1,500,210.00	1.750	3.106	3.150	09/14/2022 166	
4581X0DV7	2528 IADB	Inter-American Dev. Bank	04/20/2021	1,996,190.39	2,000,000.00	1,865,600.00	0.875	0.910	0.923	04/20/2026 1,480	
45818WDH6	2586 IADB	Inter-American Dev. Bank	09/27/2021	1,989,540.08	2,000,000.00	1,876,260.00	0.800	0.914	0.927	06/17/2026 1,538	
4581X0EB0	2652 IADB	Inter-American Dev. Bank	01/13/2022	998,832.87	1,000,000.00	955,560.00	1.500	1.504	1.525	01/13/2027 1,748	
4581X0EB0	2655 IADB	Inter-American Dev. Bank	01/14/2022	998,162.18	1,000,000.00	955,560.00	1.500	1.518	1.540	01/13/2027 1,748	

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CUSIP	Investment #	Issuer	Purchase Date	Book Value	Par Value	Market Value	Current Rate	YTM 360	YTM 365	Maturity Date	Days To Maturity
<b>Supranationals (World Bank) Bonds</b>											
459056LD7	1976 IBRD	Intl Bk Recon & Development	11/08/2018	1,549,852.81	1,500,000.00	1,569,930.00	7.625	3.111	3.155	01/19/2023	293
459058GL1	1982 IBRD	Intl Bk Recon & Development	11/27/2018	999,167.64	1,000,000.00	1,011,540.00	3.000	3.018	3.060	09/27/2023	544
459058JL8	2470 IBRD	Intl Bk Recon & Development	01/08/2021	1,500,667.31	1,500,000.00	1,391,745.00	0.500	0.480	0.487	10/28/2025	1,306
459058JS3	2492 IBRD	Intl Bk Recon & Development	02/10/2021	1,500,000.00	1,500,000.00	1,400,355.00	0.650	0.641	0.650	02/10/2026	1,411
45905U5Y6	2497 IBRD	Intl Bk Recon & Development	02/18/2021	1,500,000.00	1,500,000.00	1,395,360.00	0.600	0.591	0.600	02/18/2026	1,419
459058JL8	2498 IBRD	Intl Bk Recon & Development	02/18/2021	1,494,719.11	1,500,000.00	1,391,745.00	0.500	0.591	0.600	10/28/2025	1,306
459058JL8	2510 IBRD	Intl Bk Recon & Development	03/01/2021	1,484,332.67	1,500,000.00	1,391,745.00	0.500	0.787	0.798	10/28/2025	1,306
459058JS3	2534 IBRD	Intl Bk Recon & Development	05/26/2021	1,488,956.47	1,500,000.00	1,400,355.00	0.650	0.833	0.845	02/10/2026	1,411
459058JS3	2553 IBRD	Intl Bk Recon & Development	07/15/2021	1,488,600.91	1,500,000.00	1,400,355.00	0.650	0.839	0.851	02/10/2026	1,411
459058JS3	2559 IBRD	Intl Bk Recon & Development	08/12/2021	1,486,797.20	1,500,000.00	1,400,355.00	0.650	0.871	0.883	02/10/2026	1,411
45906M2L4	2650 IBRD	Intl Bk Recon & Development	01/07/2022	972,166.44	1,000,000.00	930,040.00	0.650	1.368	1.387	02/24/2026	1,425
45906M2Z3	2673 IBRD	Intl Bk Recon & Development	03/17/2022	997,532.41	1,000,000.00	987,530.00	2.050	2.107	2.136	03/17/2025	1,081
45950VPE0	2441 IFC	International Finance Corp.	10/30/2020	1,000,000.00	1,000,000.00	927,600.00	0.250	0.497	0.504	10/15/2025	1,293
45950VPH3	2454 IFC	International Finance Corp.	11/30/2020	1,500,000.00	1,500,000.00	1,395,720.00	0.250	0.683	0.692	11/15/2025	1,324
45950VPJ9	2483 IFC	International Finance Corp.	01/25/2021	1,504,000.56	1,500,000.00	1,394,055.00	0.580	0.501	0.508	01/15/2026	1,385
45950VPJ9	2502 IFC	International Finance Corp.	02/11/2021	1,502,791.05	1,500,000.00	1,394,055.00	0.580	0.522	0.530	01/15/2026	1,385
45950VPS9	2503 IFC	International Finance Corp.	02/26/2021	1,492,806.51	1,500,000.00	1,392,690.00	0.500	0.616	0.625	02/26/2026	1,427
45950VPT7	2514 IFC	International Finance Corp.	03/15/2021	2,000,000.00	2,000,000.00	1,875,280.00	0.500	0.808	0.819	03/15/2026	1,444
45950VPU4	2515 IFC	International Finance Corp.	03/23/2021	1,499,570.40	1,500,000.00	1,408,980.00	0.750	0.746	0.757	03/23/2026	1,452
45950VPU4	2517 IFC	International Finance Corp.	03/23/2021	1,988,337.16	2,000,000.00	1,878,640.00	0.750	0.887	0.900	03/23/2026	1,452
45950VPY6	2532 IFC	International Finance Corp.	05/28/2021	1,500,000.00	1,500,000.00	1,430,010.00	0.500	1.006	1.020	05/15/2026	1,505
45950KCX6	2654 IFC	International Finance Corp.	01/12/2022	965,689.62	1,000,000.00	925,430.00	0.750	1.518	1.540	10/08/2026	1,651
<b>Subtotal and Average</b>				<b>38,889,822.11</b>	<b>39,000,000.00</b>	<b>36,846,705.00</b>		<b>1.091</b>	<b>1.106</b>		<b>1,311</b>
<b>Total Investments and Average</b>				<b>582,263,759.65</b>	<b>575,924,531.60</b>	<b>558,001,622.48</b>		<b>1.586</b>	<b>1.608</b>		<b>1,503</b>



## Attachment C

## Investment Policy Compliance As of March 31, 2022

Investment Policy Requirements		Compliance Check / Actual
1	<b>General Investment Guidelines:</b> <ul style="list-style-type: none"> <li>a) The max. stated final maturity of individual securities in the portfolio should be 10 years.</li> <li>b) A max. of 30 percent of the par value of the portfolio shall be invested in securities with maturities beyond 5 years.</li> <li>c) The City shall maintain a minimum of one month's cash needs in short term investments.</li> <li>d) At least \$50 million shall be maintained in securities maturing in less than 2 years.  <ul style="list-style-type: none"> <li>Plus two managed pool accounts which provide instant liquidity: <ul style="list-style-type: none"> <li>- Local Agency Investment Fund (LAIF) - maximum investment limit is \$75 million</li> <li>- Fidelity Investments</li> </ul> </li> </ul> </li> <li>e) Should market value of the portfolio fall below 95 percent of the book value, report this fact within a reasonable time to the City Council and evaluate if there are risk of holding securities to maturity.</li> <li>d) Commitments to purchase securities newly introduced on the market shall be made no more than three (3) working days before pricing.</li> <li>f) Whenever possible, the City will obtain three or more quotations on the purchase or sale of comparable securities (excludes new issues, LAIF, City of Palo Alto bonds, money market accounts, and mutual funds).</li> </ul>	Full Compliance  29.38%  \$111.6 million \$24.8 million \$4.2 million 95.83%
2	<b>U.S. Government Securities:</b> <ul style="list-style-type: none"> <li>a) There is no limit on purchase of these securities.</li> <li>b) Securities will not exceed 10 years maturity.</li> </ul>	Full Compliance  2.34%
3	<b>U.S. Government Agency Securities:</b> <ul style="list-style-type: none"> <li>a) There is no limit on purchase of these securities except for:  Callable and Multi-step-up securities provided that: <ul style="list-style-type: none"> <li>- The potential call dates are known at the time of purchase;</li> <li>- the interest rates at which they "step-up" are known at the time of purchase; and</li> <li>- the entire face value of the security is redeemed at the call date.</li> <li>- No more than 25 percent of the par value of portfolio.</li> </ul> </li> <li>b) Securities will not exceed 10 years maturity.</li> </ul>	Full Compliance  24.67%
4	<b>California State, California Local Government Agencies, and other United States State Bonds:</b> <ul style="list-style-type: none"> <li>a) Having at time of investment a minimum Double A (AA/Aa2) rating as provided by a nationally recognized rating service (e.g., Moody's, Fitch, and/or Standard and Poor's).</li> <li>b) May not exceed 40 percent of the par value of the portfolio.</li> </ul>	Full Compliance  35.39%
5	<b>Certificates of Deposit (CD):</b> <ul style="list-style-type: none"> <li>a) May not exceed 20 percent of the par value of the portfolio;</li> <li>b) No more than 10 percent of the par value of the portfolio in collateralized CDs in any institution.</li> <li>c) Purchase collateralized deposits only from federally insured large banks that are rated by a nationally recognized rating agency (e.g. Moody's, Fitch, and/or Standard &amp; Poor's).</li> <li>d) For non-rated banks, deposit should be limited to amounts federally insured (FDIC)</li> <li>e) Rollovers are not permitted without specific instruction from authorized City staff.</li> </ul>	Full Compliance None Held
6	<b>Banker's Acceptance Notes (BA):</b> <ul style="list-style-type: none"> <li>a) No more than 30 percent of the par value of the portfolio.</li> <li>b) Not to exceed 180 days maturity.</li> <li>c) No more than \$5 million with any one institution.</li> </ul>	Full Compliance None Held



## Attachment C

## Investment Policy Compliance As of March 31, 2022

Investment Policy Requirements		Compliance Check / Actual
7	<b>Commercial Paper:</b> a) No more than 15 percent of the par value of the portfolio. b) Having highest letter or numerical rating from a nationally recognized rating service. c) Not to exceed 270 days maturity. d) No more than \$3 million or 10 percent of the outstanding commercial paper of any one institution, whichever is lesser.	Full Compliance None Held
8	<b>Short-Term Repurchase Agreement (REPO):</b> a) Not to exceed 1 year. b) Market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities.	Full Compliance None Held
9	<b>Money Market Deposit Accounts</b> a) Liquid bank accounts which seek to maintain a net asset value of \$1.00.	Full Compliance
10	<b>Mutual Funds:</b> a) No more than 20 percent of the par value of the portfolio. b) No more than 10 percent of the par value with any one institution.	Full Compliance None Held
11	<b>Negotiable Certificates of Deposit (NCD):</b> a) No more than 20 percent of the par value of the portfolio. b) No more than \$5 million in any one institution.	Full Compliance 5.82% Federally Insured
12	<b>Medium-Term Corporate Notes:</b> a) No more than 10 percent of the par value of the portfolio. b) Not to exceed 5 years maturity. c) Securities eligible for investment shall have a minimum rating of AA or Aa2 from a nationally recognized rating service. d) No more than \$5 million of the par value may be invested in securities of any single issuer, other than the U.S. Government, its agencies and instrumentality. e) If securities owned by the City are downgraded by either rating agencies to a level below AA it shall be the City's policy to review the credit situation and make a determination as to whether to sell or retain such securities.	Full Compliance 4.53%
13	<b>Supranational Organizations Securities:</b> a) Securities will not exceed 5 years maturity b) No more than 20 percent of the par value of the portfolio. c) No more than 10 percent in any one institution. d) Securities eligible for investment shall have a minimum rating of AA or Aa2 from a nationally recognized rating service.	Full Compliance 6.77%
14	<b>Prohibited Investments:</b> a) Reverse Repurchase Agreements b) Derivatives as defined in Appendix B of the Investment Policy	Full Compliance None Held
15	All securities shall be delivered to the City's safekeeping custodian, and held in the name of the City, with the exception of : - Certificates of Deposit, Mutual Funds, and Local Agency Investment Fund (LAIF)	Full Compliance



## Schedule of Meetings

Published April 21, 2022

This is a courtesy notice only. Meeting dates, times, and locations are subject to change. Almost all Palo Alto Council and some Standing Committee meetings are cablecast live on Channel 26. If there happens to be concurrent meetings, one meeting will be broadcast on Channel 29.

**Meetings are held in-person and by virtual teleconference.**

### **THURSDAY, April 21**

City/School Liaison Committee Meeting, 8:30 a.m.

### **THURSDAY, April 21**

Architectural Review Board Meeting, 8:30 a.m.

### **THURSDAY, April 21**

Public Art Commission Meeting, 7:00 p.m.

### **MONDAY, April 25**

Sp. City Council Meeting, 5:15 p.m.

### **TUESDAY, April 26**

Parks and Recreation Commission Meeting, 7:00 p.m.

### **WEDNESDAY, April 27**

Planning & Transportation Commission Meeting, 6:00 p.m.

### **THURSDAY, April 28**

Historic Resources Board Meeting, 8:30 a.m.

### **THURSDAY, April 28**

Human Relations Commission, 5:00 p.m.

### **MONDAY, May 2**

Sp. City Council Meeting, 5:00 p.m.

### **TUESDAY, May 3**

Sp. Finance Committee Meeting, 5:30 p.m.

### **WEDNESDAY, May 4**

Sp. Utilities Advisory Committee Meeting, 6:00 p.m.

### **THURSDAY, May 5**

Architectural Review Board Meeting, 8:30 a.m.

### **MONDAY, May 9**

Sp. City Council Meeting, 5:00 p.m.

### **TUESDAY, May 10**

Sp. Finance Committee Meeting, 9:00 a.m.