City of Palo Alto (ID # 10892)
City Council Staff Report

Report Type: Consent Calendar **Meeting Date: 1/27/2020**

Summary Title: Approve FY 2019 CAFR and accompanying reports and Various FY 2019 Budget Amendments

Title: Finance Committee Recommends the City Council: 1) Approve the FY 2019 Comprehensive Annual Financial Report (CAFR); 2) Approve Amendments to FY 2019 Budget in Various Funds; 3) Approve Recommended use of Excess General Fund Budget Stabilization Reserve Funds; and, 4) Accept the Macias Gini and O'Connell's Audit of the City of Palo Alto's Financial Statements as of June 30, 2019 and Management Letter

From: City Manager

Lead Department: Administrative Services

RECOMMENDATION

Finance Committee and Staff recommend that the City Council approve:

1. The City of Palo Alto's audited financial statements for fiscal year ended June 30, 2019, and the accompanying reports provided by Macias Gini & O'Connell ("MGO") LLP (Office of the City Auditor Report) **Attachment I.** Reports include:
    a. Report to the City Council (the "Management Letter"),
    b. Cable TV Franchise, Independent Auditor's Report and Statements of Franchise Revenues and Expenses for the years ended December 31, 2018 and 2017,
    c. Palo Alto Public Improvement Corporation (a component unit of the City of Palo Alto) Annual Financial Report for the year ended June 30, 2019
    d. Regional Water Quality Control Plant, Independent Auditor's Report and Financial Statements for the year ended June 30, 2019,
    e. Independent Accountant's Report on Applying Agreed-Upon Procedures related to the Article XIII-B Appropriations (GANN) Limit for the year ended June 30, 2019;
2. 2019 Comprehensive Annual Financial Report (CAFR), included in CMR #10644 as **Attachment II**. An electronic copy is available at:
   https://www.cityofpaloalto.org/gov/depts/asd/reporting.asp, and hard copies are available at the Administrative Services Department upon request – Attachment A;

3. Amendments to the Fiscal Year (FY) 2019 Budget Appropriation Ordinance for various funds as identified in CMR 10644 *Recommended Amendments to the City Manager's FY 2019 Budget* as Attachment B – Exhibit 1 and various capital projects as identified in Attachment B – Exhibit 2;
4. Recommended uses of excess Budget Stabilization Reserve funds in the General Fund to be completed in the FY 2020 Mid-Year Budget Review.

SUMMARY

At the November 19th, 2019 Finance Committee meeting, the Committee reviewed two staff reports, one transmitted by the City Auditor's Office and one by the City Manager's Office via the Administrative Services Department, and unanimously approved both reports for City Council consideration.

- Office of the City Auditor: Discussion and Recommendation to the City Council to Accept the Macias Gini & O'Connell's Audit of the City of Palo Alto's Financial Statements as of June 30, 2019 and Management Letter.
  https://www.cityofpaloalto.org/civicax/filebank/documents/73989
- Administrative Services Department: Recommendation to Approve the Fiscal Year (FY) 2019 Comprehensive Annual Financial Report (CAFR) and Approve FY 2019 Budget Amendments in Various Funds. (CMR #10644)
  https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=71116.9&BlobID=74081

These reports transmitted the City's FY 2019 financials through the Comprehensive Annual Financial Report (CAFR) for the year ending June 30, 2019. As is customary, the City Council is required to close out the City's financial results at the end of each fiscal year.

Overall, the City ended the year as expected and planned in an overall net positive position. No current year findings were reported, and all corrective actions have been completed for the deficiency in internal controls over financial reporting that MGO identified last year. The committee discussed the clean audit and recommended uses of excess funds.

As outlined in the staff report to the Committee, the General Fund Budget Stabilization Reserve (BSR) was above the City Council target level of 18.5 percent by up to $12.1 million. Staff and the Committee recommend use of approximately $11.3 million by: appropriating $2.9 million of the excess to a Reserve from proceeds of sale of 335 Webster, $1.4 million additional funding for General Liability & Workers Compensation Reserves, a $3.5 million transfer to the Capital Improvement Fund, and $3.5 million transfer to the General Benefits fund for an additional Section 115 Pension Trust fund contribution. These transactions will be carried out in the FY 2020 Mid-Year Budget report should the City Council approve these recommendations.

In addition, as the City Auditor's position is vacant at this time, The Office of the City Auditor recommends acceptance of the City of Palo Alto's audited financial statements and the accompanying reports provided by MGO at the meeting on November 19, 2019. The Finance

Committee approved and unanimously recommended that the City Council accept the City of Palo Alto's audited financial statements and accompanying reports. Staff in coordination with the City Auditor's Office is transmitting this in conjunction with the staff work for administrative ease due to the vacancy.

Stakeholder Engagement
This report has been prepared by the Accounting Division and coordinated with the Office of the City Auditor and the Office of Management and Budget.

Resource Impact
The actions recommended in CMR 10644, Attachment B, both Exhibits 1 and 2, recommend adjustments to the FY 2019 appropriated level of funds to align budgeted levels with year-end activities. Overall, these transactions ensure all funds remain in a positive financial picture.

Environmental Review
This is not a project for purposes of the California Environmental Quality Act (CEQA).
Attachments:

- Attachment A: Office of the City Auditor_Macias Gini & O'Connell's Audit of the City of Palo Alto's Financial Statements as of June 30, 2019 and Management Letter
- Attachment II: City Manager Report ID #10644_Fiscal Year (FY) 2019 Comprehensive Annual Financial Report (CAFR) and FY 2019 Budget Amendments in Various Funds

CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

November 19, 2019

The Honorable City Council
Palo Alto, California

Discussion and Recommendation to the City Council to Accept the Macias Gini & O'Connell's Audit of the City of Palo Alto's Financial Statements as of June 30, 2019 and Management Letter

RECOMMENDATION

We recommend the Finance Committee review and forward to the City Council for approval the City of Palo Alto's audited financial statements for the fiscal year ended June 30, 2019, and the accompanying reports provided by Macias Gini & O'Connell LLP.

DISCUSSION

The City Charter requires that the City Council, through the City Auditor, engage an independent certified public accounting firm to conduct the annual financial audit. The selected firm reports the results of the audit, in writing, to the City Council. Macias Gini & O'Connell LLP, a certified public accounting firm, conducted the audits of the City's financial statements for the fiscal year ended June 30, 2019.

The Administrative Services Department provides the Comprehensive Annual Financial Report (CAFR) and Single Audit Report, including the following Independent Auditor's Reports, to the Finance Committee:

- Independent Auditor's Reports on the Financial Statements (CAFR) (pp. 1-3 of CAFR)
- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (Single Audit Report) (pp. 173-174 of CAFR)
- Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance (Single Audit Report, pp. 175-176 of CAFR)

We are providing copies of the following financial statements and reports, as prepared by MGO:

- Report to the City Council (the "Management Letter") – Attachment A

- Cable TV Franchise, Independent Auditor's Report and Statements of Franchise Revenues and Expenses for the years ended December 31, 2018 and 2017 – Attachment B
- Palo Alto Public Improvement Corporation (a Component Unit of the City of Palo Alto), Annual Financial Report for the year ended June 30, 2019 – Attachment C
- Regional Water Quality Control Plant, Independent Auditor's Report and Financial Statements for the year ended June 30, 2019 – Attachment D
- Independent Accountant's Report on Applying Agreed-Upon Procedures Related to the Article XIII-B Appropriations (GANN) Limit for the year ended June 30, 2019 – Attachment E

No current year findings were reported. Corrective actions have been completed for the deficiency in internal controls over financial reporting that Macias Gini & O'Connell LLP identified last year related to how the City drew down funds against a grant for the Sludge Dewatering and Loadout Facility project that was partially federally funded and partially state funded (pp. 182 of CAFR).

I would like to express appreciation to Macias Gini & O'Connell LLC, Kiely Nose, Rima Lobo, and their staff in the Administrative Services Department for their hard work and cooperation during the audit.

Respectfully submitted,

Don Rhoads
Special Advisor to the Office of the City Auditor

ATTACHMENTS:

- Attachment A: Report to the City Council (PDF)
- Attachment B: Cable TV Franchise (PDF)
- Attachment C: Palo Alto Public Improvement Corporation (PDF)
- Attachment D: Regional Water Quality Control Plant (PDF)
- Attachment E: Agreed-Upon Procedures Related to the Article XIII-B Appropriations Limit (PDF)

Department Head: Don Rhoads, Special Advisor to the Office of the City Auditor

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CITY **OF PALO ALTO**

Report to the City Council

For the Year Ended June 30, 2019

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CITY OF PALO ALTO
Report to the City Council
For the Year Ended June 30, 2019

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Palo Alto, California (City), as for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 10, 2019. Professional standards also require that we communicate to you the information on pages 1 through 4 related to our audit.

In planning and performing our audit of the City's financial statements as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the second paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of the Mayor and City Council, the Finance Committee, management and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 4, 2019

Attachment A

CITY OF PALO ALTO
Report to the City Council
For the Year Ended June 30, 2019

REQUIRED COMMUNICATIONS

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City for the fiscal year ended June 30, 2019. Professional standards require that we communicate to you the following information:

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1. As described in Note 1(n) to the City's basic financial statements, the City implemented two new Governmental Accounting Standards Board (GASB) pronouncements, consisting of:

- Statement No. 83, *Certain Asset Retirement Obligations*; *and*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.*

For the implementation of GASB Statement No. 88, as of July 1, 2018, the City updated disclosures in Note 7 in the Notes to the Basic Financial Statements. Implementation of GASB Statement No. 83 did not have a significant impact on the City for the fiscal year ended June 30, 2019.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were:

- *Fair value of investments*. The City's investments are generally carried at fair value, which 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. The City's investments are primarily classified as level 2 of the fair value hierarchy established by GASB Statement No. 72 and are valued using prices determined by the use of matrix pricing techniques maintained by the pricing vendors for these securities. The City's investment in the money market mutual funds, California Local Agency Investment Fund and California Asset Management Program are not subject to the fair value hierarchy.

- *Estimated allowance for losses on notes and loans receivable*. The allowance for losses on notes and loans receivable was based on management's estimate regarding the likelihood of collectability.

REQUIRED COMMUNICATIONS (Continued)

- *Useful life estimates for capital assets*. The estimated useful lives of capital assets were based on management's estimate of the economic life of its capital assets.
- *Landfill post-closure Liability.* The City has estimated, based on a study conducted by consultants, the post-closure costs of the Palo Alto landfill based on what it would cost to perform all currently mandated post-closure care. Actual post-closure care costs may be higher due to inflation variances, changes in technology, or changes in State or federal regulations.
- *Valuation and disclosure of net pension liability, pension expense and pension related deferred outflows and inflows of resources*. The amounts reported are based on actuarial valuations performed by California Public Employees Retirement System.
- *Valuation and disclosure of net OPEB liability, OPEB expense and OPEB related deferred outflows and inflows of resources*. The amounts reported are based on actuarial valuations performed by the City's independent actuaries.
- *Annual required contributions to pension and other postemployment benefit plans* . The City is required to contribute to its pension and OPEB plans at an actuarially determined rate and to measure these benefit costs based upon certain approved actuarial assumptions.
- *Claims loss reserve.* The City is exposed to a variety of risks of loss due to general liability, workers' compensation and other claims and records an estimate of these losses based on actuarial studies performed by third party actuaries. These studies are prepared based on the City's prior claims history, which is used as a basis for extrapolating losses for known and incurred but not reported claims. Actual loss experience may vary from these estimates.

We evaluated the key factors and assumptions used to develop the accounting estimates described above in determining that they are reasonable in relation to the City's basic financial statements taken as a whole.

Certain financial statements disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the disclosure of the City's Pension Plans in Note 11, the Other Post-Employment Benefits (OPEB) in Note 12 and the Commitments and Contingencies in Note 16.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

CITY OF PALO ALTO
Report to the City Council
For the Year Ended June 30, 2019

REQUIRED COMMUNICATIONS (Continued)

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 4, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to 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, the schedule of employer OPEB contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. Such information has 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 it.

CITY OF PALO ALTO
Report to the City Council
For the Year Ended June 30, 2019

CURRENT YEAR RECOMMENDATIONS
None noted.

STATUS OF PRIOR YEAR RECOMMEDATIONS

Item 2018-001 Significant Deficiency
Internal Controls over Financial Reporting

Condition

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

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

1. The SWRCB letter on August 4, 2018 clarified that the project costs included in the first two draws submitted to SWRCB were applied to the federal awards first, before applying them to State funding sources. Therefore, ao adjustment of $4,000,000 was necessary to reduce the SWRCB loao balaoce aod recogoize grant revenue for the year ended June 30, 2018.

2. The City incurred eligible project costs of $4,964,775 during the year ended June 30, 2018 aod submitted the loao draws subsequent to year end. Accordingly, the City accrued draws made in July aod August as a receivable from the SWRCB aod as ao obligation for SWRCB loao payable. The draws for the $4,964,775 were not made by June 30, 2018, therefore City does not owe that amount to SWRCB as of year-end aod overstated its obligation for the SWRCB loao. An audit adjustment of $4,964,775 was necessary to reduce the SWRCB loao balaoce at June 30, 2018 aod reduce receivables from the SWRCB to properly account for the loan.

Recommendation

It was recommended that the City document the important terms aod conditions of the SWRCB loao to ensure proper internal controls over the financial reporting aod compliaoce. It was recommended that the City's Finaoce department collaborate with other departmeots that have material or complex transactions to strengthen internal controls over financial reporting aod compliaoce.

Corrective action plao has been implemented.

CABLE TV FRANCHISE

Independent Auditor's Report
and Statements of Franchise
Revenues and Expenses

For the Years Ended
December 31, 2018 and 2017

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CABLE TV FRANCHISE

For the Years Ended December 31, 2018 and 2017

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Independent Auditor's Report

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

We have audited the accompanying Statements of Franchise Revenues and Expenses of the Cable TV Franchise (Franchise) for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Franchise's 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 the financial reporting provisions of the Amended and Restated Joint Exercise of Powers Agreement signed on June 9, 2009, between the City of Palo Alto, the City of East Palo Alto, the City of Menlo Park, the County of San Mateo, the County of Santa Clara, and the Town of Atherton as described in Note 1 to the financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the revenues and expenses of the Franchise for the years ended December 31, 2018 and 2017, in accordance with the financial reporting provisions of the Amended and Restated Joint Exercise of Powers Agreement signed on June 9, 2009, between the City of Palo Alto, the City of East Palo Alto, the City of Menlo Park, the County of San Mateo, the County of Santa Clara, and the Town of Atherton as described in Note 1 to the financial statements.

Basis of Accounting

As discussed in Note 1 to the financial statements, the financial statements are prepared in accordance with the financial reporting provisions of the Amended and Restated Joint Exercise of Powers Agreement signed on June 9, 2009, between the City of Palo Alto, the City of East Palo Alto, the City of Menlo Park, the County of San Mateo, the County of Santa Clara, and the Town of Atherton, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended solely for the information and use of the governing bodies and management of the City of Palo Alto, the City of East Palo Alto, the City of Menlo Park, the County of San Mateo, the County of Santa Clara, and the Town of Atherton, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 4, 2019

CABLE TV FRANCIDSE

Statements of Franchise Revenues and Expenses

For the Years Ended December 31, 2018 and 2017

	2018	2017
Revenues:		
Franchise fees	$ 1,763,182	$ 1,878,392
Expenses:		
Franchise administration	47,144	44,293
Consulting fees	6,278	12,609
Total expenses	53,422	56,902
Net revenues	$ 1,709,760	$ 1,821,490

	2018		2017	
	Amount	Percent	Amount	Percent
Allocation of Net Revenues:				
City of Palo Alto	$ 824,236	48.2%	$ 890,738	48.9%
City of Menlo Park	455,822	26.7%	486,334	26.7%
City of East Palo Alto	172,521	10.1%	179,809	9.9%
Town of Atherton	137,686	8.1%	141,690	7.8%
County of Santa Clara	90,855	5.3%	97,564	5.4%
County of San Mateo	28,640	1.7%	25,355	1.4%
Total allocated net revenues	$ 1,709,760	100.0%	$ 1,821,490	100.0%

See accompanying notes to the financial statements.

CABLE TV FRANCHISE
Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 1-JOINT OPERATING AGREEMENT AND BASIS OF ACCOUNTING

In July 1983, a Joint Exercise of Powers Agreement was entered into by and between the Cities of Palo Alto, Menlo Park, East Palo Alto, the Counties of San Mateo and Santa Clara, and the Town of Atherton (Members) for the purpose of obtaining a state-of-the-art cable service for residents, businesses, and institutions, within each of their jurisdictions in the most efficient and economical manner possible.

On August 9, 2000, the City of Palo Alto (City), acting on behalf of the Members, signed a Franchise Agreement with TCI Cablevision of California, Inc., a wholly owned subsidiary of AT&T Broadband (AT&T), a third party contractor, which was granted a non-exclusive franchise to construct, operate, maintain and repair a cable television system within the Members jurisdictions. In 2002, the Franchise Agreement was transferred from AT&T to Comcast Corporation (Comcast).

TCI Cablevision of California, Inc. also signed an asset purchase agreement with Cable Communications Cooperative of Palo Alto, Inc. (CCCOPA), the former cable television system operator/owner, and acquired the system.

In October 1988, the Members entered into a Joint Operating Agreement in which the City was granted the power and the authority to administer and coordinate the activities of the franchise and exercise the rights and responsibilities of the City pursuant to the Franchise Agreement. The activities are administered by the City and are accounted for within the City's Agency Fund. The program is accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recognized when the liability is incurred.

On January 1, 2007, the Digital Infrastructure and Video Competition Act (DIVCA) went into effect. Under DIVCA, cable and video service franchises are now granted exclusively by the California Public Utilities Commission (Commission) rather than by local franchising entities. On March 30, 2007, the Commission granted AT&T a statewide franchise. Comcast was allowed to seek a state franchise after January 1, 2008, when another state franchise holder (in this case AT&T) entered the local market. On January 2, 2008, the Commission granted Comcast a state franchise.

On June 9, 2009, the Members approved an amended and restated Joint Exercise of Powers Agreement, in substitution of the existing Joint Exercise of Powers Agreement and the Joint Operating Agreement, to reflect changes in the law due to DIVCA and to continue to allow the City to administer the cable and video franchise enforcement and monitoring process for state franchise holders.

The accompanying financial statements are intended to present the Franchise's revenues and expenses pursuant to the Joint Exercise of Powers Agreement and are not intended to be a complete presentation of the Franchise's financial position or results of operations.

As compensation for services under the state franchise agreements, AT&T and Comcast pay annual franchise fees in an amount equal to *5%* of annual gross revenues, taking into account a reasonable adjustment for bad debts. From these fees the City is first reimbursed for out-of-pocket franchise administration costs. The remaining fees are distributed to each Member according to the percentage of revenues derived from the residents and businesses in each of the entities compared to revenues in total.

CABLE TV FRANCHISE
Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 2 - PRIOR FRANCHISE SETTLEMENTS

A prior Franchise Agreement with CCCOPA was set to expire on March 24, 2001. On June 21, 1999, the City hired a cable communications consultant and retained the services of a law firm to assist in the franchise renewal process. On July 31, 2000, CCCOPA reimbursed the City $185,000 toward the actual costs incurred as part of the franchise renewal efforts.

On July 24, 2000, the City reached a settlement with CCCOPA in the amount of $220,000 to resolve outstanding claims resulting from CCCOPA's alleged failure to fully perform under the prior Franchise Agreement.

On November 22, 2004, the City reached a settlement agreement with Comcast regarding cable plant construction claims in the amount of $175,000. This money was to be used towards the institutional network connection costs.

In 2006, the City conducted a franchise compliance audit performed by the City Auditor's Office. A settlement was reached in the amount of $155,391. In addition, CCCOPA paid the City a $250,000 grant to acquire, install, and/or maintain equipment to be used in connection with an institutional network defined in the Franchise Agreement.

In 2016, the City Auditor discovered that AT&T and Comcast did not consistently calculate the fees due in accordance with DIVCA and the municipal code of each of the cable joint powers members. As a result of the audit, the City received a settlement from AT&T in the amount of $75,647 in 2016. Additionally, the City received a settlement from Comcast in the amount of $25,000 in 2018.

The settlements and grant have been deposited and are being held by the City and earning interest. The City has since spent a part of the balance on various projects including installing and maintaining the institutional network equipment. As of December 31, 2018 and 2017, the remaining balances on deposit with the City were $684,471 and $963,535 (with a subsequent payment of $239,029 to its members in January 2018), respectively. These balances include interest receivable of $2,940 on December 31, 2018 and $2,642 on December 31, 2017.

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

Annual Financial Report
For the Year Ended June 30, 2019

Certified
Public
Accountants

PALO ALTO PUBLIC IMPROVEMENT CORPORATION
(A Component Unit of the City of Palo Alto)
For the Year Ended June 30, 2019

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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, 2019, 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, 2019, 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.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 4, 2019

PALO ALTO PUBLIC IMPROVEMENT CORPORATION
(A Component Unit of the City of Palo Alto)
Management's Discussion & Analysis (Unaudited)
For the Year Ended June 30, 2019

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 (GASB 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 two 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.

FISCAL YEAR 2019 FINANCIAL HIGHLIGHTS

GASB 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 2002, the Corporation issued its 2002B Downtown Parking Improvements Certificates of Participation (2002B COPs) in the amount of $3.6 million. 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 COPs 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.

As of June 30, 2019, the 2018, 2019A and 2019B COPs comprise the Corporation's outstanding debt.

At the government-wide level, the interest and fiscal agent charges were $1.05 million for fiscal year 2019, an increase of $742 thousand from the prior year. The interest on leases on the assets was $1.07 million, an increase of $977 thousand from the prior year. The increases of interest and fiscal charges and interest on leases are due to the issuance of the 2019A and 2019B COPs during the year. Interest and fiscal agent charges exceeded the interest on leases from the City by $18 thousand, thereby resulting in an increase in net position of $19 thousand over the prior year.

The Corporation ended fiscal year 2019 with total assets of $51.7 million, an increase of $42.7 million from the prior year. Total assets consisted of $34 thousand in cash and investments held by trustee and $521 thousand of lease interest receivable from the City of Palo Alto and $51.2 million of investment in leases to the City of Palo Alto. The total liabilities were $51.7 million, an increase of $42.7 million from the prior year. The increase of assets and liabilities resulted from the issuance of the California Avenue Parking Garage Series A and B.

At the fund level, the Corporation's revenues exceeded the expenditures and other financing sources by $19 thousand. As of June 30, 2019, the Corporation had one fund, the Debt Service Fund, which reported a $34 thousand restricted fund balance.

PALO ALTO PUBLIC IMPROVEMENT CORPORATION
(A Component Unit of the City of Palo Alto)
Management's Discussion & Analysis (Unaudited)
For the Year Ended June 30, 2019

OVERVIEW OF THE CORPORATION'S BASIC FINANCIAL STATEMENTS

The annual financial report is comprised of two parts:

I) 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-tenn 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-tenn 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 COPs for 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 COPs issue.

As of June 30, 2019, the Corporation has the following outstanding debts: 2018, 2019A and 2019B COPs, with outstanding principal balances of $8.9 million and $37.4 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, 2019

Assets		
Cash and investments held for operations		494
Cash and investments held by trustee		33,850
Lease interest receivable		521,340
Investment in leases to the City of Palo Alto		51,183,463
Total assets		51,739,147
Liabilities		
Interest payable		521,341
Long-term debt:		
Due in one year		747,571
Due in more than one year		50,435,892
Total liabilities		51,704,804
Net Position		
Restricted for debt service	$	34,343

See accompanying notes to financial statements.

PALO ALTO PUBLIC IMPROVEMENT CORPORATION
(A Component Unit of the City of Palo Alto)
Statement of Activities
For the Year Ended June 30, 2019

Expenses		
Interest and fiscal agent charges	$	1,049,919
Program revenues		
Interest on leases from the City of Palo Alto		1,067,660
Net program revenues		17,741
(;eneral revenues		
Investment earnings		1,011
Change in net position		18,752
Net position, beginning of the year		15,591
Net position, end of the year	$	34,343

See accompanying notes to financial statements.

PALO ALTO PUBLIC IMPROVEMENT CORPORATION
(A Component Unit of the City of Palo Alto)
Balance Sheet
Debt Service Fund
June 30, 2019

Assets		
Cash and investments held for operations	$	494
Cash and investments held by trustee		33,850
Lease interest receivable		521,340
Investment in leases to City of Palo Alto		51,183,463
Total assets	$	51,739,147
Deferred Inflows of Resources		
Unavailable lease receipts from the City of Palo Alto	$	51,704,804
Fund balance		
Restricted for debt service		34,343
Total deferred inflows of resources and fund balance	$	51,739,147

Reconciliation of fund balance to net position		
Fund balance restricted for debt service	$	34,343
Long-term receivables are not available to pay for current period expenditures and are considered unavailable on the governmental fund balance sheet		51,704,804
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the Fund:		
Interest payable		(521,341)
Long-term debt due within one year		(747,571)
Long-term debt due in more than one year		(50,435,892)
Net position of governmental activities	$	34,343

See accompanying notes to financial statements.

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, 2019

Revenues:	
Lease receipts from the City of Palo Alto:	
Principal	S 35,000
Interest	319,602
Others	1,916
Investments earnings	1011
Total revenues	357,529
Expenditures:	
Lease proceeds to the City of Palo Alto	41,995,000
Debt service:	
Principal repayment	35,000
Interest and fiscal agent charges	319,602
Costs of issuance	285,781
Total expenditures	42,635,383
Exces:i of Revenue:i over Expenditures	(42,277,854)
Other Financing Sources (Uses):	
Issuance of Debt	37,370,000
Bond Premium	4,926,606
Total other financing sources (uses)	42,296,606
Net change in fund balance	18,752
Fund balance, beginning of the year	15,591
Fund balance, end of the year	S 34,343

Reconciliation of net change in fund balance to change in net position	
Net change in fund balance - debt service fund	18,752
Amounts reported for governmental activities in the statement of activitie:i are different beC1111Se:	
Repayment of bond principal is an expenditure in the governmental funds, Statement of Net Position, the repayment reduces long-term liabilities.	35,000
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	(492,679)
Amortization of bond premium	48,143
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 activitie:i.	
Issuance of Bonds	(37,370,000)
Bonds premium	(4,926,606)
Some amounts reported in the statement of revenues, expenditures and changes in fund balances reflect the collection of an asset which are not includable as revenues and expenses on the statement of activities.	
Lease receipt fur bond principal repayment	(35,000)
Lease receipt for interest payment	492,679
Lease receipt fur new bond issuance	42,296,606
Impact of bond premium amortization on lease receipt	(48,143)
Change in net position of governmental activities	S 18,752

See accompanying notes to financial statements.

PALO ALTO PUBLIC IMPROVEMENT CORPORATION
(A Component Unit of the City of Palo Alto)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2019

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 (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, 2019.

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:

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

(c) 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, 2048. The Corporation therefore records the present value of the lease and considers the leased improvement to have been sold for this amount when leased.

PALO ALTO PUBLIC IMPROVEMENT CORPORATION
(A Component Unit of the City of Palo Alto)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) 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, 2019, 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.

(e) 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. The City considers revenues susceptible to accrual 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.

(f) Fund Balances

At June 30, 2019, 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.

(g) 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.

PALO ALTO PUBLIC IMPROVEMENT CORPORATION
(A Component Unit of the City of Palo Alto)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2019

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	$ 33,850	19 days

(b) 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, 2019, the Corporation's investments in money market mutual funds are rated AAAm by Standard & Poor's.

(c) 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.

(d) 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 Comprehensive Annual 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.

PALO ALTO PUBLIC IMPROVEMENT CORPORATION
(A Component Unit of the City of Palo Alto)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 3-CASH AND INVESTMENTS HELD BY TRUSTEE (continued)

Autboriz.ed Investment Type	Maximum Maturity	Minimum CreditQuality	Maxim.um Percentage ofPortfolio	Maxirmm Investment in One Issuer
U.S. Government Securities	lOyears (*)	NIA	No Limit	No Limit
U.S. Government Agency Securities	IOyears (*)	NIA	No Limit (A)	No Limit
Certificates of Deposit	IOyears (*)	NIA	2CJCAi	10% ofthe par value of portfoi:l
Bankers Acceptances	180days	NIA	30%	$5mil00n
Commercial Paper	270days	A-1	15%	$3 m.illim (B)
Local Agency Investment Fund	NIA	NIA	No Limit	$50 m.illim per accoum
Short-Term Repurchase Agreements	1year	NIA	No Limit	No Limit
City of Palo Alto Bonds	NIA	NIA	No Limit	No Limit
Money Market Deposit Accoums	NIA	NIA	No Limit	No Limit
Mutual Funds	NIA	NIA	20%	100A.
Negotiable Certificates of Deposit	IOyears (*)	NIA	10%	$5 m.illim
Medium-Term Corporate Notes	5 years	AA	100A.	$5mil00n
Bonds of State of California Municipal Agencils & Other U.S. States	IOyears (*)	AA/AA2	30%	No Limit
Supranational	5years	AA/AA2	20%	10% of the par value of portfoi:l

(A) Callable andmuhi-step securities are limited to no more than 25% of the par value of the portfolio, provXled that: 1) the potential call dates are known at the time of purchase, 2) the interest rates at which they "step-up" are known at the time of purchase, 3) the entire face value of the security is redeemed at
(B) The lesser of $3 milOOn or 100o of outstanding commercial paper of any one instituti:m.
(*) The maximum maturity is based on the Investment Policy that is approved by the City CoWl.Cil and is less restrictive than the California Governmental Code.

NOTE 4 -CERTIFICATES OF PARTICIPATION

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

	Balance June 30, 2018	Additions	Retirements	Balance June 30, 2019	Amomrt due in one year
Certificateii of Participation					
2018 Capital Improvement Project 2.20-4.22%, due 11/112047	$ 8,970,000	$	$ 35,000	$ 8,935,000	$ 180,000
2019 California Ave. Parking Garage Series A& B *2.5%-5%*, due 11/112048		37,370,000		37,370,000	375,000
AddL Unamorti7.ed Premiwn		4,926,606	48,143	4,878,463	192,571
	Total $	8,970,000	$ 42,296,606	$ 83,143	$
	51,183,463	$ 747,571			

PALO ALTO PUBLIC IMPROVEMENT CORPORATION
(A Component Unit of the City of Palo Alto)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2019

PALO ALTO PUBLIC IMPROVEMENT CORPORATION
(A Component Unit of the City of Palo Alto)
Notes to the Basic Financial Statements
For the Year Ended June 30, 2019

NOTE 4 -CERTIFICATES OF PARTICIPATION (Continued)

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.

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

For the Year Ending June 30,	Principal	Interest Payment	Total Payment
2020	$ 555,000	$ 2,307,898	$ 2,862,898
2021	815,000	2,093,575	2,908,575
2022	835,000	2,070,960	2,905,960
2023	860,000	2,043,531	2,903,531
2024	890,000	2,007,303	2,897,303
2025-2029	5,100,000	9,360,666	14,460,666
2030-2034	6,425,000	7,997,194	14,422,194
2035-2039	8,125,000	6,257,467	14,382,467
2040-2044	10,285,000	4,044,229	14,329,229
2045-2048	12,415,000	1,354,105	13,769,105
	$ 46,305,000	$ 39,536,928	$ 85,841,928

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
REGIONAL WATER QUALITY CONTROL PLANT

Independent Auditor's Report and Financial Statements

For the Year Ended
June 30, 2019

Certified
Public
Accountants

CITY OF PALO ALTO
REGIONAL WATER QUALITY CONTROL PLANT
For the Year Ended June 30, 2019

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the City of Palo Alto Regional Water Quality Control Plant (Plant), an enterprise operation of the City of Palo Alto, California, for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Plant's 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 the financial reporting provisions of the Basic Agreement between the City of Palo Alto, the City of Mountain View and the City of Los Altos for the Acquisition, Construction and Maintenance of a Joint Sewer System, dated October 10, 1968, as amended by addenda dated December 5, 1977, January 14, 1980, April 9, 1985, May 30, 1991, July 31, 1992, March 16, 1998, April 15, 2009 and October 17, 2016 (collectively, the "Basic Agreement"), as described in Note 2 to the financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the revenues, expenditures and quarterly billings of the Plant for the year ended June 30, 2019, in accordance with the financial reporting provisions of the Basic Agreement as described in Note 2 to the financial statements.

Basis of Accounting

As discussed in Note 2 to the financial statements, the financial statements are prepared in accordance with the financial reporting provisions of the Basic Agreement, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended solely for the information and use of the City Council and management of the Cities of Palo Alto, Mountain View and Los Altos, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 4, 2019

CITY OF PALO ALTO
REGIONAL WATER QUALITY CONTROL PLANT
Statement of Net Expenditures
For the Year Ended June 30, 2019

	Total	City of Mountain View	City of Los Altos	City of Palo Alto
Direct Expenditures:				
Source control program	S 1,224,010	S 482,994	S 121,177	S 619,839
	116,316	45,898	11,515	58,903
	1,042,481	287,642	17,056	737,783
	14,575,798	5,751,610	1,443,004	7,381,184
	3,625,353	1,430,564	358,910	1,835,879
	20,583,958	7,998,708	1,951,662	10,633,588
Source control program	948,573	374,307	93,909	480,357
Public outreach	2,757	1,088	273	1,396
Permitting and enforcement	422,513	265,51S	15,744	141,254
Operations and maintenance	3,798,519	1,498,895	376,055	1,923,569
Total Indirect Administrative Expenditures	5,172,362	2,139,805	485,981	2,546,576
Debt Service Expenditures (Note 5):				
Refunding 1990 Series A Bonds	282,665	144,159	22,048	116,458
1999 Wastewater Treatment New Project	545,854	206,824	51,692	287,338
2009 State Water Resource Loan	555,126	210,565	52,627	292,534
Total Debt Service Expenditures	1,384,245	561,548	126,367	696,330
Total Expenditures	27,140,565	10,700,061	2,564,010	13,876,494
Deduct Joint Systems Revenues (Note 6)	387,0931	152,74:z2	38,3221	196,0241
Net Expenditures	S 26,753,472	S 10,547,314	S 2,525,688	S 13,680,470

See accompanying notes to the financial statements.

CITY OF PALO ALTO
REGIONAL WATER QUALITY CONTROL PLANT
Statement of Quarterly Billings
For the Year Ended June 30, 2019

	City of Mountain View	City of Los Altos
Billings by Quarter, Beginning:		
July 1, 2018	$ 2,673,214	$ 632,674
October 1,2018	2,929,282	694,846
January 1, 2019	2,673,214	632,674
April 1, 2019	2,978,598	696,801
Total billings	11,254,308	2,656,995
Net expenditures	10,547,314	2,525,688
Excess of total billings over net expenditures	$ 706,994	$ 131,307

See accompanying notes to the financial statements.

CITY OF PALO ALTO
REGIONAL WATER QUALITY CONTROL PLANT
Notes to the Financial Statements
For the Year Ended June 30, 2019

NOTE 1-THE REPORTING ENTITY

The Cities of Palo Alto, Mountain View and Los Altos (the Members) participate jointly in the cost of maintaining and operating the Regional Water Quality Control Plant and related system (the Plant). The Members share the original costs of acquisition and construction of the Plant in the same proportions as the allocation of capacity rights to them. The City of Palo Alto (the City) is the owner and administrator of the Plant. The Cities of Mountain View and Los Altos are entitled to use a portion of the capacity of the Plant, as set forth in the Basic Agreement between the City of Palo Alto, the City of Mountain View and the City of Los Altos (collectively, the "Members") for the Acquisition, Construction and Maintenance of a Joint Sewer System dated October 10, 1968, as amended by addenda dated December 5, 1977, January 14, 1980, April 9, 1985, May 30, 1991, July 31, 1992, March 16, 1998, April 15, 2009 and October 17, 2016 (collectively, the "Basic Agreement"). The Basic Agreement will terminate on December 31, 2060, unless a written notice of withdrawal is tendered ten years preceding the date of withdrawal.

Effective October 17, 2016, the Members entered into an amendment to approve the projects for planning and design of the primary sedimentation tanks, the fixed film reactors, a new laboratory and Environmental Service building, and the design and construction of a sludge dewatering and load-out facility (the Projects). The Members also authorized the City to pursue State Revolving Fund loans from the State Water Resources Control Board to fund the costs of the Projects.

NOTE 2 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Plant is an enterprise that is operated by the City and its operations are accounted for as an enterprise fund in the City's basic financial statements. The accompanying financial statements are intended to present the Plant's net expenditures and quarterly billings by the Plant to the Cities of Mountain View and Los Altos pursuant to the agreement of the Members as described above and are not intended to be a complete presentation of the Plant's financial position or results of operations. Additionally, the capital cost and the outstanding debt of the Plant are not presented in these statements but are presented in the basic financial statements of the City.

Plant expenditures, joint system revenues, debt service and industrial waste compliance expenditures are shared by the Members based on agreed upon allocation percentages. The expenditures, including indirect administrative expenditures (see Note 4), are allocated to each of the Members based primarily on their respective percentages of the annual sewage flow and treatment needed for suspended solids, chemical oxygen demand and ammonia. Revenues from services, fines and penalties are allocated to each of the Members in the same proportions as those of expenditures. Debt service payments are allocated based on percentages established at the time of bond issuance. Industrial waste compliance (Public outreach and permitting and enforcement) charges are allocated to Members primarily based on upon the number of industries and efforts required to maintain compliance with sewage use ordinances and other regulations from Environmental Protection Agency.

CITY OF PALO ALTO
REGIONAL WATER QUALITY CONTROL PLANT
Notes to the Financial Statements
For the Year Ended June 30, 2019

NOTE 2 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The percentages used for the year ended June 30, 2019, to allocate expenditures and revenues were as follows:

	City of Mountain View	City of Los Altos	City of Palo Alto
Public outreach, source control program, operations and maintenance, system improvement CIP, and joint system revenues	39.46%	9.90%	50.64%
Debt services expenditures:			
1999 Utility Refunding Bonds			
1999 Wastewater Treatment New Project	37.89%	9.47%	52.64%
Refunding 1990 Series A Bonds	51.00%	7.80%	41.20%
2009 State Water Resoun:es Loan	37.89%	9.47%	52.64%
Permitting and enforcement	37.76%	2.24%	60.00%

The City is allocated 50.64% of total usage of the treatment plant. The City does not fully utilize its percentage allocation. Therefore, the City has entered into separate contracts to allocate portions of its excess to other entities. Fiscal year 2019 allocations are as follows:

East Palo Alto Sanitary District	6.78%
Stanford University	6.18%
Town of Los Altos Hills	1.75%
Remaining City percentages	35.93%
Total	50.64%

The agreement the City has with the above entities has no effect on the partnership agreement between the Members.

Billings are made in advance and are based on the adopted budget for the plant and estimated sewage flow. Excess billings (over) under net expenditures are offset against the payments during the second quarter of the subsequent fiscal year.

NOTE 3-SYSTEM IMPROVEMENT CIP

The basic agreement between the Members, dated October 10, 1968, provides that the administrator of the Plant is responsible for capital additions. These capital additions should be for the replacement of obsolete or worn-out units, or minor capital additions to improve the efficiency of the Plant's operations. Per an addendum to the agreement dated March 16, 1998, the Members agreed that capital additions should not exceed $1.9 million in 1998-99 (base year). For future years, the base year amount will be adjusted annually based on increases to the Consumer Price Index-Urban Wage Earners and Clerical Workers for the San Francisco-Oaldand-San Jose area. For fiscal year 2019, the adjusted capital additions limit is $3,257,896. Actual System Improvement CIP expenditures amounted to $3,625,353 for fiscal year 2019. As of June 30, 2019, the commitments for minor capital additions, including unspent capital additions is $6,426,784 which have been carried forward to fiscal year 2020.

CITY OF PALO ALTO
REGIONAL WATER QUALITY CONTROL PLANT
Notes to the Financial Statements
For the Year Ended June 30, 2019

NOTE 3-SYSTEM IMPROVEMENT CIP (Continued)

As of June 30, 2019, the City also committed $1,755,902 for major projects such as the Dewatering and Loadout Facility project that was approved in October 2016. These commitments are not subject to the minor capital addition limit.

NOTE 4-INDIRECT ADMINISTRATIVE EXPENDITURES

Indirect expenditures include those costs allocated from the City's General Fund administrative services, which supports all operating departments of the City. Other indirect expenses are administrative charges from the City's Internal Services Funds. These allocations are applied on a uniform basis throughout the City. The allocations are applied in accordance with the subsequent letter of agreement dated April 9, 1985.

NOTE S-DEBT SERVICE EXPENDITURES

Debt service expenditures include principal repayments, interest expense and amortization of bond discount reduced by any interest income earned from investments with the fiscal agent, related to the 1999 Series A Bonds (split for the portions used for the "New Project" and refunding of the 1990 Series A Bonds) and the 2009 State Water Resources loan.

In prior years, the City, City of Mountain View, City of Los Altos, Town of Los Altos Hills, East Palo Alto Sanitary District, and Stanford University agreed to issue bonds (1999 Series A Bonds) to finance the rehabilitation of the Wastewater Treatment System's two sludge incinerators and to refund the 1990 Series A Bonds. In October 2009, the City approved the 2009 State Water Resources Loan to finance the Ultraviolet Disinfection Project. The principal amount of the debt outstanding as of June 30, 2019 are allocated as follows:

	1999 Utili!l'. Revenue Refun Bonds			
	1999 Wastewater Treatment New Project	Refunding of 1990 Series A Bonds	2009 State Water ResoUICc:B Loan	Total
City of Palo Alto	$ 871,956	$ 300,588	$ 2,162,201	$ 3,334,745
City of Mountain View	865,786	613,199	2,146,903	3,625,888
City of Los Altos	216,390	93,784	536,584	846,758
East Palo Alto Sanitary District	174,574	143,080	432,893	750,547
Stanford University	120,191	49,296	298,039	467,526
Town of Los Altos Hills	36,103	2,404	89,525	128,032
Total	$ 2,285,000	$ 1,202,351	$ 5,666,145	$ 9,153,496

As required by the Indenture of the 1999 Series A Bonds, the City established a debt service reserve fund (the Reserve Account), with a minimum funding level requirement in the Reserve Account (the Reserve Requirement). At the time the bond issuance, the City satisfied the Reserve Requirement with a deposit into the Reserve Account of a surety bond in the amount of $1,647,300 issued by Ambac Assurance Corporation.

CITY OF PALO ALTO
REGIONAL WATER QUALITY CONTROL PLANT
Notes to the Financial Statements
For the Year Ended June 30, 2019

NOTE 5-DEBT SERVICE EXPENDITURES (Continued)

2017 State Water Resources Loan - In June 2017, the State Water Resources Control Board (SWRCB) and the City executed an agreement for an award up to $30 million, 30 years at 1.8% to finance the project replacing the sewage sludge "bio-solids" incinerators at the Plant. Under the terms of the contract, a portion of the loan amount, $4 million, has been forgiven due to the City's performance of its obligations under the agreement. On September 13, 2017, the City and SWRCB amended the original agreement of the 2017 SRF loan to lower the total amount to $29.7 million and the due date of the last debt service payment be May 31, 2049.

The new facility will dewater the bio-solids and allow it to be loaded onto trucks and taken offsite for further treatment until further treatment units can be built onsite. The Plant provides treatment and disposal for wastewater for the City, City of Mountain View, City of Los Altos, Town of Los Altos Hills, East Palo Alto Sanitary District, and Stanford University. Though the City is the recipient of the loan, the City's agreement with the partner agencies oblige them to pay their proportionate share of the principal and interest of this loan. The City's share of the loan payment is 38.2% with the partner agencies paying 61.8%. Per the SWRCB agreement, the first debt service payment of this loan is due on May 31, 2020, a year after the project is expected to be completed.

NOTE 6-JOINT SYSTEM REVENUES

The Plant's joint system revenues for the year ended June 30, 2019 total $387,093 which consisted of the following:

Septic hauling services	$ 340,252
Other i:niscellaneous revenues	6,196
Salt water marsh services	7,500
Utility service to other utility funds	36,757
Bad debt expense	(3,612)
	$ 387,093

NOTE 7-RELATED PARTY TRANSACTIONS

During fiscal year 2019, the Plant paid the City $2,984,282 for utility costs. Such costs are included in the Statement of Net Expenditures as source control program, permitting and enforcement, and operations and maintenance expenditures. Vehicle replacement charges of $12,209 were paid to the City's Equipment Replacement Fund, which is included in the Statement of Net Expenditures as operations and maintenance expenditures.

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CITY OF PALO ALTO, CALIFORNIA

Independent Accountant's Report on Applying
Agreed-Upon Procedures Related to
the Article XIII-B Appropriations Limit

For the Year Ended June 30, 2019

Certified
Public
Accountants

Certified Public Accountants

Independent Accountant's Report on
Applying Agreed-Upon Procedures Related to
the Article XIII-B Appropriations Limit

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

We have performed the procedures enumerated below to the accompanying Appropriations Limit Worksheet of the City of Palo Alto, California (City), which were agreed to by the City and recommended by the California Committee on Municipal Accounting (CCMA) (as presented in the CCMA White Paper titled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitution*), on the City's calculation of the appropriations limit in accordance with Section 1.5 of Article XIII-B of the California Constitution for the year ended June 30, 2019. The City management is responsible for the Appropriation Limit Worksheet. The sufficiency of these procedures is solely the responsibility of the City's Management. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

1. We obtained the completed worksheets setting forth the calculations necessary to establish the City's appropriations limit and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the City Council. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of the City Council.

   Finding: No exceptions were found as a result of applying the procedure.

2. For the accompanying Appropriations Limit Worksheet, we added the prior year appropriations limit to total adjustments, and compared the resulting amount to the current year appropriations limit.

   Finding: No exceptions were found as a result of applying the procedure.

3. We compared the current year information presented in the accompanying Appropriations Limit Worksheet to the worksheets described in No. 1 above.

   Finding: No exceptions were found as a result of applying the procedure.

4. We compared the prior year appropriations limit presented in the accompanying Appropriations Limit Worksheet to the prior year appropriations limit adopted by the City Council.

   Finding: No exceptions were found as a result of applying the procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Appropriations Limit Worksheet. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriations limit for the base year, as defined by Article XIII-B of the California Constitution.

This report is intended solely for the information and use of the City Council and City management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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Walnut Creek. California
November 4, 2019

CITY OF PALO ALTO, CALIFORNIA
Appropriations Limit Worksheet
For the Year Ended June 30, 2019

2017-2018 appropriation limit, as adopted	$	158,370,000
Adjustment factors:		
Population (1)		1.0099
Inflation (2)		1.0367
Total adjustment factors (rounded) (3)		1.0470
Total adjustments		7,440,000
2018-2019 appropriation limit, as adopted	$	165,810,000

(1) The population factor may be based on the change in population of 1) the City or 2) the County of Santa Clara, as provided by the State of California's Department of Finance. The population factor adopted by the City for the current year appropriation limit represents the change in population of the County of Santa Clara.

(2) The inflation factor may be based on 1) the change in per capita personal income for the State of California, as provided by the State of California's Department of Finance; or 2) the change in the assessed valuation due to new non-residential construction within the City. The inflation factor adopted by the City for the current year appropriation limit represents the change in per capita personal income.

(3) The total adjustment factor is calculated by multiplying the population factor by the inflation factor.

City of Palo Alto (ID # 10644)
Finance Committee Staff Report

Report Type: Action Items **Meeting Date: 11/19/2019**

Council Priority: Fiscal Sustainability

Summary Title: Approval of FY 2019 Comprehensive Annual Financial Report (CAFR) & Budget Amendments

Title: Recommendation to Approve the FY 2019 Comprehensive Annual Financial Report (CAFR) and Approve FY 2019 Budget Amendments in Various Funds

From: City Manager

Lead Department: Administrative Services

Recommendation
Staff recommends that the Finance Committee forward to the City Council for its approval:

1. Amend the Fiscal Year (FY) 2019 Budget Appropriation Ordinance for various funds as identified in the attached Recommended Amendments to the City Manager's FY 2019 Budget (Operating Budget: **Attachment B – Exhibit 1**; Capital Budget: **Attachment B – Exhibit 2**); and

2. The City's FY 2019 Comprehensive Annual Financial Report (CAFR) (Attachment C).

Executive Summary
At the close of FY 2019, the City's overall Net Position remains positive. The Statement of Activities (p. 31 of the attached CAFR), reports Governmental Activities Net Position at $450.0 million, a $22.6 million increase over prior year, and Business-Type Activities as $751.5 million, a $53.4 million increase. Various factors contribute to these increases, including accounting adjustments required by the Governmental Accounting Standards Board (GASB). Financial highlights by fund category can be found in the Discussion section of this report.

Background
The City's fiscal year ends on June 30, at which time its financial records are closed for the year and financial reports are prepared. The reports, along with the City's financial data, are audited by Macias Gini & O'Connell LLP (MGO), Certified Public Accountants, a firm hired by the City Auditor. MGO issues an audit opinion on the financial position of the City's activities and,

together with the City's financial statements and other information; this comprises the City's Comprehensive Annual Financial Report (CAFR) that can be found at **Attachment C**.

Also attached to this staff report is Recommended Amendments to the City Manager's FY 2019 Budget. These recommended actions close the fiscal year by reallocating and realigning budget to reappropriate funds or adjust transfers between operating and capital funds. The General Fund Summary found at **Attachment A**, provides detailed information of the fund's activity this year.

The CAFR includes fund level financial statements that provide a snapshot of fund balances and activity for the year. An overview of financial results, information on how to navigate the CAFR document, and highlights of key fiscal issues affecting the City can be found in the Management's Discussion and Analysis (MD&A) section (CAFR p. 5). The MD&A also provides a discussion and analysis of the City's current fiscal health and includes financial statements and analysis that is compared to the prior year, along with capital asset and debt administration data.

In addition, staff has prepared and attached a budgetary basis summary of General Fund Revenues and Expenditures to provide a snapshot of the fund's revenue and expenditures by department (**Attachment A**). The Discussion section of this staff report includes Results by Fund which discusses position of fund balances, major revenue sources, and expense highlights.

Discussion

Financial Highlights for FY 2019

General Fund

The General Fund ended FY 2019 with $13 million surplus, which includes adjustments for assumptions used in the development of the FY 2020 Adopted Operating Budget when compared to necessary funding to reach the Council approved Budget Stabilization (BSR) target level of 18.5%. The primary driver of the surplus was revenue receipts being higher than the Adjusted Budget by $8.4 million primarily due to increased Sales Tax, Property Tax, as well as the proceeds from the disposition of the former City Manager's house. Overall department expense savings was $3.3 million and is attributed to position vacancy savings, particularly positions at the executive and management level of the organization.

Enterprise Funds

The Enterprise Funds ended the year in surplus positions. The Electric Fund financial condition improved notably ending with a surplus of $19.0 million due hydroelectric generation which was 17 percent above average and approximately $7.4 million of the change in Net Position is attributed to additional sales revenue from sale of excess hydroelectric generation. The Gas Fund ended with a surplus of $5.3 million due to higher operating revenues as a result of a rate increase and higher consumption.

Internal Service Funds
Internal Service Funds ended the fiscal year with $57.8 million fund balance. All funds showed positive balances except the Printing and Mailing which reported a $0.4 million negative balance due to the pension liability per GASB 68 and OPEB liability per GASB 75.

Results by Fund:
General Fund Reserves
At the end of the current fiscal year, fund balance of the General Fund was $75.2 million. The $75.2 million fund balance is comprised of several reserves: the Budget Stabilization Reserve (BSR), encumbrances and reappropriations, notes and loans, inventory, prepaid items, and other general government special purposes reserves (this includes reserve from donations, trusts and store inventories). As described in the BSR reserve (City's general reserve) policy approved by Council, the reserve is to remain between 15 and 20 percent of the General Fund operating budget, with a target goal of 18.5 percent. Any reserve balance in excess of 18.5 percent of expenditures and transfers may be transferred to the Infrastructure Reserve (IR) in the Capital Projects Fund at the discretion of the City Manager.

The Fiscal Year 2020 Budget is projected to have a $41.4 million Budget Stabilization Reserve Balance as of June 30, 2019, compared to the actual balance of $54.8 million (this is a component of the General Fund, fund balance noted above). This is $13.4 million above estimates.

The chart below outlines the recommended uses. Once all these adjustments are taken into consideration, the remaining BSR would be at $44.4 million; approximately 19.2 percent of the FY 2020 Adopted expenses of $230.8 million. This level is approximately $1.6 million above the target level of 18.5 percent. Staff recommends leaving the BSR above the targeted level in order to anticipate a higher reserve level to meet the Council target of 18.5 percent in FY 2021.

Year-End Budget Stabilization Reserve (BSR) Summary (000's)	
General Fund BSR Balance, June 30 2019	**54,811**
Uses of the FY 2019 Surplus	
FY 2020 Approved Adjustments to the BSR Balance	
FY 2020 Adopted Budget	1,292
FY 2020 City Manager Reports Budget Amendments	(450)
Recommended Budget Amendments	
Reserve for proceeds from the sale of 335 Webster	(2,900)
Additional funding for General Liability & Workers Compensation Reserves	(1,400)
Transfer to the General Capital Improvement Fund (471)	(3,500)
Transfer to the General Benefits Fund: 115 Pension Trust Fund Contribution	(3,500)
Current Projected FY 2020 BSR Level (June 30, 2019)	**$44,352**

General Fund Revenues
General Fund revenues for FY 2019 were $197.1 million, which is $17.0 million or 9.4 percent higher than the prior year. Year over year changes in each of the major tax revenue categories are summarized in the following table.

Category	**FY 2019**	**FY 2018**	**% Change** Increase (Decrease)
Property tax	$ 47,327	$ 42,839	10.5%
Sales tax	36,508	31,091	17.4%
Utility user tax	16,402	15,414	6.4%
Transient occupancy tax	25,649	24,937	2.9%
Documentary transfer tax	6,923	9,229	(25.0%)

Property tax revenue increased by $4.5 million or 10.5 percent due to higher assessed values because of continued robust commercial and residential real estate markets. Fiscal years 2019 and 2018 included unusual receipts of $2.7 million and $1.4 million, respectively, for excess Educational Revenue Augmentation Fund (ERAF) distributions from the County of Santa Clara. 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. After adjusting for the unusual excess ERAF receipts in this and the prior fiscal year, the property tax growth for fiscal year 2019 is 7.7 percent.

Sales tax revenue substantially increased in FY 2019. This growth is primarily attributable to combination of economic performance in sectors such as auto sales and leasing and restaurants and one-time receipts totaling $2.7 million. In addition, in fiscal year 2018 the California Department of Tax and Fee Administration (CDTFA) was established and introduced new technology and collection process which had issues resulting to delays of distribution in sales tax. This resulted in fiscal year 2018 being economically lower by $0.7 million and Fiscal Year 2019 being higher by the same amount. After adjusting for the one-time and delayed payments, the base sales tax growth is 6.5 percent. In addition, there is continued erosion of brick and mortar receipts caused by steady growth in on-line retail sales. However, increased receipts from the county pool, which include a growing number of on-line retailers collecting sales and use tax, has been offsetting these losses.

Utility user tax (UUT) revenues were $1.0 million or 6.5 percent, higher compared to the prior year. Approximately, 45 percent of this growth is due to City provided utilities (electric, gas, and water) rate increases and 55 percent due to local telecommunications activity increasing.

Transient occupancy tax (TOT) revenues ended the year $0.7 million, or 2.9 percent higher than prior year. The increase is attributable to the voter approval of 1.5 percent tax rate increase from 14 percent to 15.5 percent effective April 1, 2019. The base TOT decreased by 5.4 percent with average occupancy declining by 1.8 percent but average room rates increasing by 2.6 percent the 1.5 percent increase has been allocated to the Infrastructure Plan pursuant to prior City Council direction. Following is a comparative breakdown of the allocation of transient occupancy tax receipts:

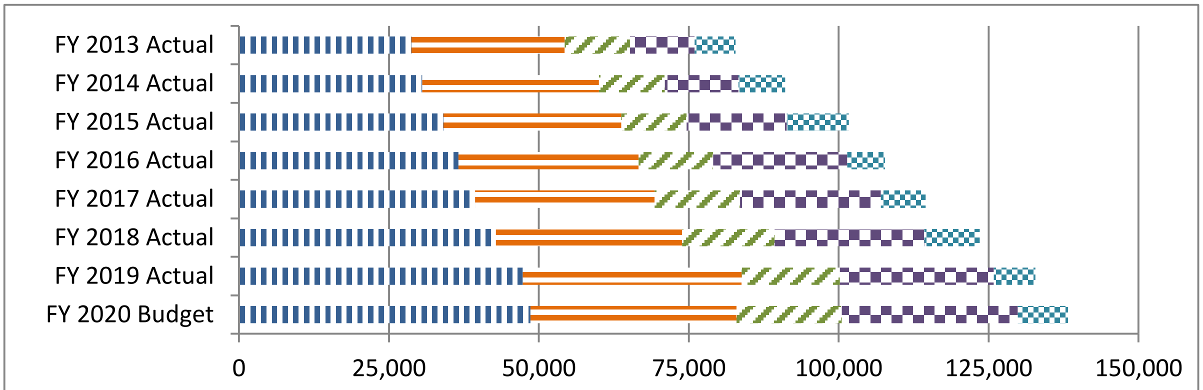
	FY 2019	**FY 2018**	**% Change** Increase (Decrease)
General Fund:	$ 16,957	$ 16,697	1.6%
Infrastructure Plan:			
New hotels – 12%	4,423	4,678	(5.5%)
All hotels – 2%	4,269	3,562	19.8%
Subtotal Infrastructure	*8,692*	8,240	*5.5%*
Total TOT Receipts	**$ 25,649**	**$ 24,937**	**2.9%**

Documentary Transfer Tax (DTT) revenues decreased $2.3 million or 25 percent to $6.9 million. This revenue source is volatile since it is highly dependent on sales volume and the mix of commercial and residential sales so it can greatly fluctuate. The prior year's receipts were boosted by large commercial sales.

Other revenue increased $7.1 million from prior year levels mostly due to an increase in investment earnings, rental income, and other revenues (disposition of 335 Webster).

Following is a chart which depicts the relative contribution of each tax category over the past seven years (2013 through 2019), as well as the current budgeted year (2020).

General Fund Tax Revenues
Actual Fiscal Years 2013 – 2019
Budget Fiscal Year 2020
($ in thousands)



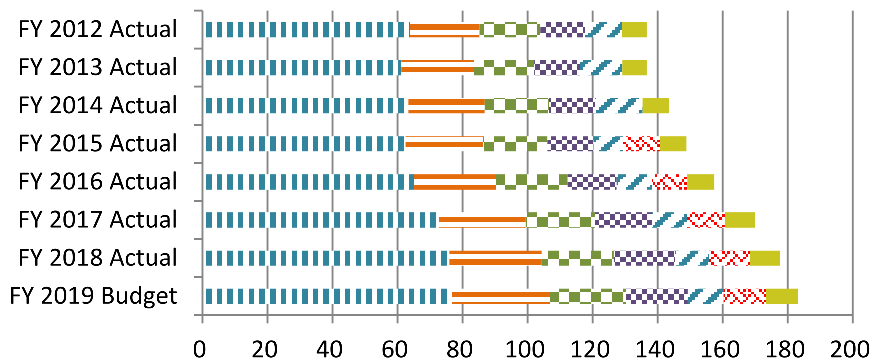
	FY 2020 Budget	FY 2019 Actual	FY 2018 Actual	FY 2017 Actual	FY 2016 Actual	FY 2015 Actual	FY 2014 Actual	FY 2013 Actual
Property Tax	48,634	47,327	42,839	39,381	36,607	34,117	30,587	28,742
Sales Tax	34,346	36,508	31,091	29,923	30,018	29,675	29,424	25,606
Utility User Tax	17,581	16,402	15,414	14,240	12,469	10,861	11,008	10,861
Trans Occ Tax	29,309	25,649	24,937	23,477	22,366	16,699	12,255	10,794
Doc Transfer Tax	8,369	6,923	9,229	7,491	6,266	10,384	7,811	6,810

General Fund Expenditures

General Fund expenditures for FY 2019, including encumbrances and reappropriations, totaled $193.0 million; an increase of 4.3 percent from the prior year. The Original Budget of $183.6 million was increased to the Final Adjusted Budget amount of $196.3 million, primarily due to the expenditure of prior year encumbered and reappropriated balances; increases for several departments throughout the year also occurred based on City Council direction per recommendations contained in City Manager Reports.

Following is a chart which compares actual departmental costs, including encumbrances and reappropriations, over the past seven years and budgeted costs for FY 2019.

General Fund Departments
Actual Expenditures Fiscal Years 2013– 2019 (including encumbrances)
Budgeted Expenditures Fiscal Year 2020
($ in thousands)



	FY 2019 Budget	FY 2018 Actual	FY 2017 Actual	FY 2016 Actual	FY 2015 Actual	FY 2014 Actual	FY 2013 Actual	FY 2012 Actual
Public Safety	76,765	75,975	72,815	65,005	62,459	63,403	61,222	63,879
Community Services	30,096	28,395	26,573	25,262	23,902	23,402	22,279	21,399
Admin Depts	23,408	22,127	21,406	22,059	19,771	19,784	18,544	18,693
Public Works	19,004	18,908	17,475	15,084	14,210	14,138	13,987	13,789
Planning & Comm Env	11,009	10,446	10,732	10,912	9,026	14,637	13,112	11,186
Development Svcs	13,098	12,560	11,668	10,872	11,335	0	0	0
Library	9,900	9,357	9,266	8,217	8,144	8,072	7,555	7,714

Capital Projects Fund

The Capital Projects Fund ended the year with a fund balance of $109.5 million, which are comprised of the following:

Fund Balance Component	Amount ($ in millions)
Restricted for Library projects	$ 588
Reserved for Roth Building rehabilitation	4,920
Reserved for Cubberley expenditures	5,422
Restricted for California Avenue Parking Garage	42,151
Assigned for all other Capital projects	56,439
Total Capital Projects Fund Balance	109,520

Restricted for Library projects $0.6 million is the portion of fund balance dedicated to remaining Library expenditures which, if considered bond expenses will be paid for with cash from Bond proceeds. Non-bondable expenditures such as salaries and benefits are funded from the Infrastructure Reserve, as established at the time of the bond issuance. Staff is reviewing the need for this reserve due to completion of library projects and will make adjustments in future as necessary.

Restricted for California Avenue Parking Garage $42.2 million represents the bond funding dedicated to the construction of the new California Avenue parking garage.

Assigned for all other Capital projects of $56.4 million represents the amount of unspent funds associated with Adopted Capital projects and other noted items. Outside funding sources such as grants, donations and future debt issues are not factored into this component of the fund balance until they are actually received.

Enterprise Funds

The City's Enterprise Funds reported a total Net Position of $741.5 million, a $53.4 million increase from the prior year. The overall change in Net Position is driven by the Electric Fund, Water Fund, and Airport Fund. The table below summarizes the overall change in Net Position for each Enterprise Fund. Compared to FY 2018, the Change in Net Position for Enterprise funds increased $23.5 million and is driven primarily by the Water Fund, Electric Fund, Gas Fund and Airport Fund – details of these funds summarized following this table.

Enterprise Funds

Change in Net Position for the Year Ended June 30

(in Millions)

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

The Water Fund had a change in Net Position totaling $8.0 million, a $2.9 million increase compared to the change in Net Position reported in prior year. Capital projects that were planned in FY 2019 were deferred and to be completed in FY 2020. The savings as a result of deferring these projects will be added to the fund's capital reserves and used in future years.

In the Electric Fund, the change in Net Position is $19.0 million, a $20.2 million increase compared to prior year. Hydroelectric generation was 17 percent above average and approximately $7.4 million of the change in Net Position is attributed to additional sales revenue from sale of excess hydroelectric generation. In addition, expenditures tracked 9 percent, approximately $13.0 million, below budget due to capital project deferrals, vacancy savings, delays in energy and water efficiency contracts, and lower energy purchase due to decreased load demand.

The Gas Fund had a Net Change in Position totaling $5.3 million, a $3.8 million increase compared to prior year. Sales revenue was 6 percent higher than expected, accounting for approximately $6.0 million of the increase, and was offset by higher commodity costs totaling $3.0 million.

The Airport Fund Change in Net Position decreased by $3.5 million due to $9.3 million in grant revenues received in FY 2018.

The table below details the Change in Unrestricted Reserves in the Enterprise Funds. Enterprise Fund Rate Stabilization, Operations and other reserve balances are shown in detail in the CAFR (CAFR p. 86, Footnote 10). Overall, except for the Wastewater Treatment Fund and the Airport Fund, each Enterprise Funds maintained a positive unrestricted reserve balance as of June 30, 2019. Adjustments for the Pension Reserve (as required by GASB Pronouncement No. 68) and OPEB Reserve (as required by GASB Pronouncement No. 75) total $136.0 million for all Enterprise Funds and reduce each fund's Unrestricted Reserves.

The Wastewater Treatment Fund reflects a $13.8 million Unrestricted Reserve deficit and is driven by $27.0 million in Pension Reserves and OPEB Reserves negative adjustments.

The Airport Fund reports a $3.3 million Unrestricted Reserve deficit which is attributed to the Pension Reserve and OPEB Reserve adjustments. Second, the fund deficit in the Airport Fund is also a result of cumulative fund deficits over the life of the fund as fiscal operations at the airport stabilize and capital projects near completion. The General Fund transferred a series of advances totaling $3.1 million for "start-up" costs for the airport. It is expected that the Airport Fund will be able to make its first payment to the General Fund in FY 2020.

Enterprise Funds
Change in Reserves (Unrestricted) for the Year Ended June 30
(in Millions)

Fund Name	2019	2018	Increase/ (Decrease)
Water	$ 25.5	$ 22.2	$ 3.3
Electric	69.8	58.3	11.5
Fiber Optics	30.2	27.1	3.1
Gas	7.5	8.7	(1.2)
Wastewater Collection	2.2	0.1	2.1
Wastewater Treatment	(13.8)	(15.0)	1.2
Refuse	15.1	10.2	4.9
Storm Drainage	1.9	1.1	0.8
Airport	(3.3)	(3.3)	0.0
Total Change in Reserves (Unrestricted)	**$ 135.3**	**$ 109.4**	**$ 25.9**

Resource Impact

Recommended actions in the report will align the FY 2019 appropriations with final financial activities as outlined in Attachment B. The appropriation of funds in FY 2020 as recommended in the BSR table would be brought forward as part of the FY 2020 Mid-Year Budget Report. Overall, the City ended the 2019 fiscal year in a positive position and in certain areas where net reserves are higher than estimated in the development of the FY 2020 Adopted budget, those additional funds will be included as part of the FY 2021 budget balancing and rate setting activities.

Environmental Review

This is not a project for purposes of the California Environmental Quality Act.

Attachments:

- Attachment A: FY 2019 General Fund Financial Summary (Budget to Actuals)
- Attachment B: Recommended FY 2019 Year-end Adjustments
- Attachment C: City of Palo Alto Fiscal Year 2019 Comprehensive Annual Financial Report

Attachment A

	GENERAL FUND SUMMARY ($000s)						
	FY 2019 Adopted Budget	FY 2019 Adjusted Budget	FY 2019 CAFR Basis Rev/Exp	FY 2019 Allocated Charges	FY 2019 Encum / Reappropriation	FY 2019 Actual Rev/Exp	FY 2019 Actual to Adj Budget Variance
Revenues							
Sales Tax	31,246	31,746	36,508			36,508	4,761
Property Tax	45,332	46,232	47,327			47,327	1,095
Transient Occupancy Tax	25,049	25,391	25,649			25,649	258
Documentary Transfer Tax	7,434	8,034	6,923			6,923	(1,111)
Utility User Tax	16,092	16,092	16,402			16,402	310
Other Taxes, Fines and penalties	2,032	2,032	1,888			1,888	(145)
Charges for Services	28,419	28,419	27,346			27,346	(1,073)
Permits and Licenses	8,545	8,545	8,410			8,410	(134)
Investment Earnings	1,194	1,194	2,167			2,167	974
Rental Income	15,734	15,734	16,338			16,338	604
From Other Agencies	2,943	3,229	2,480		79	2,942	(287)
Charges to Other Funds	10,093	10,147	-	10,685		10,685	538
Other Revenues	568	1,599	4,195	-		4,195	2,596
Total Revenues	**194,681**	**198,394**	**195,633**	**10,685**	**79**	**206,780**	**8,387**
Add: Operating Transfers In	19,772	20,154	20,154			20,154	-
Prior Year Encum / Reappropriation	-	7,821	7,821			7,821	-
Total Source of Funds	**214,453**	**226,369**	**223,608**	**10,685**	**79**	**234,755**	**8,387**
Expenditures							
City Attorney	3,263	3,783	2,649	1,002	132	3,783	(0)
City Auditor	1,258	1,238	865	318	55	1,238	(0)
City Clerk	1,282	1,267	805	291	97	1,193	73
City Council	488	501	265	103	42	411	90
City Manager	4,386	4,905	2,883	972	595	4,450	455
Administrative Services	7,963	7,834	5,512	2,076	206	7,794	40
Community Services	28,929	30,282	28,903	112	1,186	30,201	82
Fire	31,825	33,894	33,489	164	241	33,894	(0)
Police	43,460	43,912	42,854	577	266	43,698	215
Human Resources	3,591	3,796	2,567	976	154	3,697	98
Library	9,664	9,767	9,288	-	203	9,491	276
Planning and Community Environment	8,791	10,346	8,132	34	1,740	9,906	439
Development Services	12,561	13,103	11,549	727	424	12,700	403
Public Works	18,462	18,362	13,757	3,331	839	17,928	435
Non-Departmental	1,531	7,201	6,368	2	368	6,737	464
Cubberley Lease	6,101	6,101	5,830	-		5,830	271
Total Expenditures	**183,555**	**196,291**	**175,719**	**10,685**	**6,548**	**192,952**	**3,339**
Add: Operating Trans Out	5,726	9,574	9,574	-		9,574	-
Transfer to Infrastructure	25,172	27,514	27,514	-		27,514	-
Total Use of Funds	**214,453**	**233,380**	**212,807**	**10,685**	**6,548**	**230,040**	**3,339**
Net Surplus/(Deficit)	**0**	**(7,011)**	**10,801**	**0**	**6,548**	**4,716**	**11,726**

CAFR Reconciliation:

Unrealized gain/loss on investments	**3,505**
Current year encumbrance / reappropriations	**6,469**
Prior Year encumbrances / reappropriations	**(7,821)**
CAFR Net Income	**6,869**

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND (102)			
Administrative Services	**Management Development & Training (reallocation to Non-Departmental)** This action reallocates departmental management development savings to Non-Departmental to reappropriate funds for city-wide training needs in FY 2021.	$ -	$ (16,000)
City Attorney's Office	**Non Salary Contractual Expenses** This action reallocates funding as a result of higher than anticipated contract expenses for legal services in FY 2019. These higher expenditures are due to more than anticipated time spent on litigation for the City and a higher level of department support than originally estimated.	$ -	$ 103,000
City Auditor's Office	**Management Development & Training (reallocation to Non-Departmental)** This action reallocates departmental management development savings to Non-Departmental to reappropriate funds for city-wide training needs in FY 2021.	$ -	$ (4,000)
City Auditor's Office	**Salaries & Benefits** This action reallocates funding as a result of higher than anticipated salary expenses in FY 2019. These higher anticipated expenditures are due to a number of variables including a higher than anticipated payout for paid leave as a result of the departure of the City Auditor. In addition, at the City Council's direction, funding was used for a contract with an outside consultant to manage the Auditor's Office after the departure of the City Auditor. The funding need for this contract ended up being more than originally anticipated in order to maintain services provided by the Auditor's Office while the search for a new City Auditor was conducted.	$ -	$ 70,000
City Clerk's Office	**Management Development & Training (reallocation to Non-Departmental)** This action reallocates departmental management development savings to Non-Departmental to reappropriate funds for city-wide training needs in FY 2021.	$ -	$ (2,000)
City Manager's Office	**Management Development & Training (reallocation to Non-Departmental)** This action reallocates departmental management development savings to Non-Departmental to reappropriate funds for city-wide training needs in FY 2021.	$ -	$ (7,000)
Community Services	**Management Development & Training (reallocation to Non-Departmental)** This action reallocates departmental management development savings to Non-Departmental to reappropriate funds for city-wide training needs in FY 2021.	$ -	$ (6,500)
Development Services	**Management Development & Training (reallocation to Non-Departmental)** This action reallocates departmental management development savings to Non-Departmental to reappropriate funds for city-wide training needs in FY 2021.	$ -	$ (9,500)
Fire	**Salaries & Benefits** This action reallocates funding as a result of higher than anticipated salary expenses in FY 2019. These higher anticipated expenditures are due to a number of variables including the Department being allowed to hire ahead for its recruit academy in an attempt to reduce the number of vacancies across the department. In addition, the Department was over it's budgeted overtime due to the need to backfill for the vacancies as well as employees out on various types of leave.	$ -	$ 690,000
Human Resources	**Management Development & Training (reallocation to Non-Departmental)** This action reallocates departmental management development savings to Non-Departmental to reappropriate funds for city-wide training needs in FY 2021.	$ -	$ (1,000)

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND (102)			
Library	**Management Development & Training (reallocation to Non-Departmental)** This action reallocates departmental management development savings to Non-Departmental to reappropriate funds for city-wide training needs in FY 2021.	$ -	$ (5,000)
Non-Departmental	**Management Development & Training (reallocation from various departments)** This action reallocates departmental management savings to Non-Departmental to reappropriate funds for city-wide training needs in FY 2020.	$ -	$ 80,000
Office of Emergency Services	**Management Development & Training (reallocation to Non-Departmental)** This action reallocates departmental management development savings to Non-Departmental to reappropriate funds for city-wide training needs in FY 2021.	$ -	$ (2,000)
Office of Sustainability	**Management Development & Training (reallocation to Non-Departmental)** This action reallocates departmental management development savings to Non-Departmental to reappropriate funds for city-wide training needs in FY 2021.	$ -	$ (2,000)
Non-Departmental	**Elections** This action appropriates funding to cover an invoice from Santa Clara County for elections costs that were higher than originally anticipated due to the higher number of measures that ended up on the ballot.	$ -	$ 88,384
Non-Departmental	**Transient Occupancy Tax/Transfer to Capital Improvement Fund** This action increases the transfer to the Capital Improvement Fund as it relates to Transient Occupancy Tax (TOT) revenues earmarked for city-wide infrastructure improvements due to higher than anticipated TOT collections.	$ 341,300	$ 341,300
Non-Departmental	**Transfer to the 2002 Downtown Parking Improvement Fund** The 2002 Downtown Parking Improvement Fund (Fund 360) was established to pay the annual debt service costs associated with the bond issued to construct downtown parking improvements in 2002. The payments were funded through a transfer from the General Fund. This action eliminates the transfer to Fund 360, because the debt service payments were refinanced as part of the bond issuance for the Golf Course Reconfiguration capital project. As a result, Fund 360 will be closed and the remaining debt service costs for the parking improvements will be accounted for in the 2018 Golf Course COP Fund (Fund 361).	$ -	$ (161,154)
Non-Departmental	**Transfer to the 2018 Golf Course COP Fund** This action transfers funds to the 2018 Golf Course COP Fund (Fund 361) to pay the annual debt service costs associated with the bond issued for the Golf Course Reconfiguration capital project as well as the refinanced debt service costs associated with the bond issued to construct a parking garage on Bryant Street in 2002. Costs for annual the debt service are funded through a transfer from the General Fund.	$ -	$ 339,010
Non-Departmental	**Debt Service for Golf Course Reconfiguration** As part of the FY 2019 Adopted Budget, it was assumed that once the bond was issued, the debt service payments for the Golf Course Reconfiguration capital project would be paid directly from the General Fund. Once the bond was issued, it was determined that a separate 2018 Golf Course COP Fund (Fund 361) would be established to pay the debt service costs associated with the bond. This action reduces the amount budgeted in the General Fund for the debt service costs.	$ -	$ (177,856)
Planning & Community Environment	**Departmental Expense Savings** This action reallocates departmental vacancy savings within the General Fund in order to offset departments with higher than anticipated expenses in FY 2019.	$ -	$ (163,000)
Planning & Community Environment	**Management Development & Training (reallocation to Non-Departmental)** This action reallocates departmental management development savings to Non-Departmental to reappropriate funds for city-wide training needs in FY 2021.	$ -	$ (9,000)

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND (102)			
Police	**Departmental Expense Savings** This action reallocates departmental vacancy savings within the General Fund in order to offset departments with higher than anticipated expenses in FY 2019.	$ -	$ (400,000)
Police	**Management Development & Training (reallocation to Non-Departmental)** This action reallocates departmental management development savings to Non-Departmental to reappropriate funds for city-wide training needs in FY 2021.	$ -	$ (6,500)
Public Works	**Departmental Expense Savings** This action reallocates departmental vacancy savings within the General Fund in order to offset departments with higher than anticipated expenses in FY 2019.	$ -	$ (300,000)
Public Works	**Management Development & Training (reallocation to Non-Departmental)** This action reallocates departmental management development savings to Non-Departmental to reappropriate funds for city-wide training needs in FY 2021.	$ -	$ (9,500)
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report.	$ -	$ (88,384)
	GENERAL FUND (102) SUBTOTAL	**$ 341,300**	**$ 341,300**

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
CAPITAL IMPROVEMENT FUNDS			
GENERAL FUND CAPITAL IMPROVEMENT FUND (471)			
Capital	**Capital Improvement Project Adjustments** This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	$ (23,157,000)	$ (19,954,400)
Capital	**Bond Proceeds** This action appropriates the full amount of the COP funding issued to fund the construction of the New California Avenue Area Parking Garage (PE-18000) in the appropriate category, Bond Proceeds.	$ 41,995,000	$ -
Capital	**Miscellaneous Revenue** As part of the FY 2019 Adopted Budget, the budgeted Certificates of Participation (COP) revenue ($39.5 million) related to the New California Avenue Area Parking Garage (PE-18000) was categorized as Miscellaneous Revenue. After the final COP funding amount ($42.0 million) was issued, the funding was recategorized as Bond Proceeds. This action reduces the funding in Miscellaneous Revenue in order to properly record the full funding in the appropriate category.	$ (39,487,000)	$ -
Capital	**Transfer from General Fund** This action increases the transfer from the General Fund related to TOT revenue Council earmarked to use for city-wide infrastructure improvements due to actual revenue collected being higher than budgeted in FY 2019.	$ 341,300	$ -
Capital	**Transfer from Gas Tax Fund/ Street Maintenance (PE-86070)** This action increases the transfer from the Gas Tax Fund due to actual revenue collected being higher than budgeted in FY 2019. A corresponding transfer is recommended from the Gas Tax Fund to the Capital Improvement Fund to appropriate funding for this project.	$ 30,000	$ 30,000
Capital	**Transfer to 2018 Golf Course COP Fund** This action transfers the remaining funding that was set aside in the Capital Improvement Fund to pay for the 2018 Golf Course COP issuance. These will be used to pay for the annual debt service costs in the 2018 Golf Course COP Fund.	$ -	$ 17,507
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report.	$ -	$ (370,807)
	GENERAL FUND CAPITAL IMPROVEMENT FUND (471) SUBTOTAL	**$ (20,277,700)**	**$ (20,277,700)**
CUBBERLEY PROPERTY INFRASTRUCTURE FUND (472)			
Capital	**Capital Improvement Project Adjustments** This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	$ -	$ 3,500
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report.	$ -	$ (3,500)
	CUBBERLEY PROPERTY INFRASTRUCTURE FUND (472) SUBTOTAL	**$ -**	**$ -**

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
ENTERPRISE FUNDS			
ELECTRIC FUND (513 & 523)			
Capital	**Capital Improvement Project Adjustments** This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	$ -	$ 388,800
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report.	$ -	$ (388,800)
	ELECTRIC FUND (513 & 523) SUBTOTAL	**$ -**	**$ -**
GAS FUND (514 & 524)			
Capital	**Capital Improvement Project Adjustments** This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	$ -	$ 600
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report.	$ -	$ (600)
	GAS FUND (514 & 524) SUBTOTAL	**$ -**	**$ -**
STORM DRAINAGE FUND (528)			
Capital	**Capital Improvement Project Adjustments** This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	$ -	$ 22,800
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report.	$ -	$ (22,800)
	STORM DRAINAGE FUND (528) SUBTOTAL	**$ -**	**$ -**
WASTEWATER COLLECTION FUND (527)			
Capital	**Capital Improvement Project Adjustments** This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	$ -	$ 104,700
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report.	$ -	$ (104,700)
	WASTEWATER COLLECTION FUND (527) SUBTOTAL	**$ -**	**$ -**
WATER FUND (522)			
Capital	**Capital Improvement Project Adjustments** This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	$ -	$ 96,800
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report.	$ -	$ (96,800)
	WATER FUND (522) SUBTOTAL	**$ -**	**$ -**

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
INTERNAL SERVICE FUNDS			
PRINT AND MAILING FUND (683)			
Administrative Services	**Charges to Other Funds** This action increases the estimate for revenue for printing services to align with year end revenues collected.	$ 18,000	$ -
Administrative Services	**Non Salary Expense (Rents and Leases)** This action increases the appropriation for non salary expenses related to the City's central printing contract to align with year-end actuals.	$ -	$ 155,000
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report.	$ -	$ (137,000)
	PRINT AND MAILING FUND (683) SUBTOTAL	**$ 18,000**	**$ 18,000**
WORKERS' COMPENSATION FUND (688)			
Non-Departmental	**Excess Insurance Reimbursement/Insurance Claims Paid** This action increases the estimate for insurance reimbursements as well as the appropriation for insurance claims paid. The City is self-insured for workers' compensation up to a specified dollar amount per claim and has a workers' compensation insurance policy through California State Association of Counties (CSAC) Excess Insurance Authority for excess coverage. This recommendation reflects the reimbursements received and the corresponding costs incurred by the City during the period as result of excess insurance claims.	$ 100,000	$ 100,000
	WORKERS' COMPENSATION FUND (688) SUBTOTAL	**$ 100,000**	**$ 100,000**
GENERAL LIABILITIES INSURANCE FUND (689)			
Non-Departmental	**Charges to Other Funds** This action increases the estimate for charges to other funds by $950,000 ($518,000 in the General Fund) due to an updated actuarial analysis in August 2019 for general liabilities that have been incurred but not reported (IBNR) being $3.0 million higher than budgeted. Departments had sufficient savings at the end of FY 2019 to support the additional costs and did not require budgetary adjustments. The remaining $2.1 million is anticipated to be brought forward as a midyear adjustment in FY 2020 to fully adjust for the liability and ensure appropriate distribution across the City.	$ 950,000	$ -
Non-Departmental	**Excess Insurance Reimbursement** This action increases the estimate for insurance reimbursements as result of higher than anticipated revenues in FY 2019. The City is self-insured for liability claims up to a specified dollar amount per claim and has an insurance policy through California State Association of Counties (CSAC) Excess Insurance Authority for excess coverage. This recommendation reflects the reimbursements received by the City during the period as result of excess liability claims.	$ 550,000	$ -

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
INTERNAL SERVICE FUNDS			
Non-Departmental	**Liability Insurance** This action increases the appropriation for liability insurance costs due to an updated actuarial analysis in August 2019 for general liabilities that have been incurred but not reported (IBNR) being $3.0 million higher than budgeted. The additional liability expense has been fully recognized in FY 2019 and has been partially recovered through additional allocations to departments. Due to sufficient savings elsewhere in the General Liability Fund a reduced adjustment of $1.5 million is recommended for the additional liability expense.	$ -	$ 1,500,000
	GENERAL LIABILITIES INSURANCE FUND (689) SUBTOTAL	**$ 1,500,000**	**$ 1,500,000**

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
SPECIAL REVENUE FUNDS			
PUBLIC ART FUND (207)			
Community Services	**Public Art Fee Revenue** This action increases the estimate for Art Fees as result of higher than anticipated revenues in FY 2019.	$ 530,000	$ -
Community Services	**Salaries & Benefits** This action increases the salaries and benefits appropriation as result of slightly higher than anticipated expenses in FY 2019.	$ -	$ 2,100
Fund Balance	**Adjustment to Fund Balance** This action increases the fund balance to offset adjustments recommended in this report.	$ -	$ 527,900
	PUBLIC ART FUND (207) SUBTOTAL	**$ 530,000**	**$ 530,000**
PUBLIC SERVICES DONATION FUND (191)			
Various	**Donations Revenue/Non-Salary Expenses** This action increases the appropriation for expenses in the Public Services Donation Fund to align with FY 2019 year end expense and encumbered funds. Donations in this fund are for activities such as parks and open space activities, art center programs, and animal care services. A corresponding adjustment to revenue reflecting higher than budgeted donations is recommended to offset this increase.	$ 60,000	$ 16,000
Fund Balance	**Adjustment to Fund Balance** This action increases the fund balance to offset adjustments recommended in this report.	$ -	$ 44,000
	PUBLIC SERVICES DONATION FUND (191) SUBTOTAL	**$ 60,000**	**$ 60,000**
GAS TAX FUND (231)			
Non-Departmental	**State of California Revenue: SB1/Transfer to Capital Improvement Fund** This action increases the revenue estimate for State of California SB1 allocations to align with higher than anticipated actuals during the period. In FY 2019, the total allocation to the City was $1,170,000 which was $30,000 higher than preliminary estimates from the State Department of Finance. Funding from SB1 is earmarked for transportation and traffic-related capital projects and was used during the period to partially fund the Street Maintenance Capital Improvement Project (PE-86070). The additional revenues are recommended to offset an additional appropriation to this project through a corresponding transfer from the Gas Tax Fund to the Capital Fund.	$ 30,000	$ 30,000
	GAS TAX FUND (231) SUBTOTAL	**$ 30,000**	**$ 30,000**

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
SPECIAL REVENUE FUNDS			
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) FUND (232)			
Planning & Community Environment	**Transfer from Housing Rehabilitation Fund** This action increases the transfer from the Housing Rehabilitation Fund to the CDBG Fund to consolidate funding for the CDBG Program. Historically, three funds have been used to track CDBG reimbursements: the Community Development Block Grant (CDBG) Fund (232); the Housing Rehabilitation Fund (238); and the Non-profit Housing Rehabilitation Fund (241). The latter two funds have been inactive for longer than five years and remaining cash balances are recommended to be consolidated into the active CDBG Fund to centralize activity. A corresponding transfer is recommended in the Non-Profit Rehabilitation Fund to the CDBG Fund.	$ 44,178	$ -
Planning & Community Environment	**Transfer from Non-Profit Housing Rehabilitation Fund** This action increases the transfer from the Non-Profit Housing Rehabilitation Fund to the CDBG Fund to consolidate funding for the CDBG Program. Historically, three funds have been used to track CDBG reimbursements: the Community Development Block Grant (CDBG) Fund (232); the Housing Rehabilitation Fund (238); and the Non-profit Housing Rehabilitation Fund (241). The latter two funds have been inactive for longer than five years and remaining cash balances are recommended to be consolidated into the active CDBG Fund to centralize activity. A corresponding transfer is recommended in the Housing Rehabilitation Fund to the CDBG Fund.	$ 22,625	$ -
Fund Balance	**Adjustment to Fund Balance** This action increases the fund balance to offset adjustments recommended in this report.	$ -	$ 66,803
	COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) FUND (232) SUBTOTAL	**$ 66,803**	**$ 66,803**
HOUSING REHABILIATION FUND (238)			
Planning & Community Environment	**Transfer to CDBG Fund** This action increases the transfer from the Housing Rehabilitation Fund to the CDBG Fund to consolidate funding for the CDBG Program. Historically, three funds have been used to track CDBG reimbursements: the Community Development Block Grant (CDBG) Fund (232); the Housing Rehabilitation Fund (238); and the Non-profit Housing Rehabilitation Fund (241). The latter two funds have been inactive for longer than five years and remaining cash balances are recommended to be consolidated into the active CDBG Fund to centralize activity. A corresponding transfer is recommended in the CDBG Fund from the Housing Rehabilitation Fund.	$ -	$ 44,178
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report.	$ -	$ (44,178)
	HOUSING REHABILIATION FUND (238) SUBTOTAL	**$ -**	**$ -**

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
SPECIAL REVENUE FUNDS			
NON-PROFIT HOUSING REHABILIATION FUND (241)			
Planning & Community Environment	**Transfer to CDBG Fund** This action increases the transfer from the Housing Rehabilitation Fund to the CDBG Fund to consolidate available funding for the CDBG Program. Historically, three funds have been used to track CDBG reimbursements: the Community Development Block Grant (CDBG) Fund (232); the Housing Rehabilitation Fund (238); and the Non-profit Housing Rehabilitation Fund (241). The latter two funds have been inactive for longer than five years and remaining cash balances are recommended to be consolidated into the active CDBG Fund to centralize activity. A corresponding transfer is recommended in the CDBG Fund from the Non-Profit Housing Rehabilitation Fund.	$ -	$ 22,625
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report.	$ -	$ (22,625)
	NON-PROFIT HOUSING REHABILIATION FUND (241) SUBTOTAL	**$ -**	**$ -**

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
DEBT SERVICE & AGENCY TRUST FUNDS			
2002 DOWNTOWN PARKING IMPROVEMENT FUND (360)			
Administrative Services	**Transfer from General Fund/Debt Service Payments** The 2002 Downtown Parking Improvement Fund (Fund 360) was established to pay the annual debt service costs associated with the bond issued to construct downtown parking improvements in 2002. The payments were funded through a transfer from the General Fund. This action eliminates the transfer to Fund 360, because the debt service payments were refinanced as part of the bond issuance for the Golf Course Reconfiguration capital project. As a result, Fund 360 will be closed and the remaining debt service costs for the parking improvements will be accounted for in the 2018 Golf Course COP Fund (Fund 361).	$ (161,154)	$ (161,154)
Administrative Services	**Transfer to 2018 Golf Course COP Fund** This action appropriates the remaining amount in this fund to be transferred to the 2018 Golf Course COP Fund in order to be used towards the remaining debt service for the 2002 downtown parking improvements that was refinanced as part of the 2018 Golf Course COP issuance.	$ -	$ 15,591
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report and close this fund.	$ -	$ (15,591)
	2002 DOWNTOWN PARKING IMPROVEMENT FUND (360) SUBTOTAL	**$ (161,154)**	**$ (161,154)**
2018 GOLF COURSE COP FUND (361)			
Administrative Services	**Transfer from General Fund** This action establishes the transfer from the General Fund to the 2018 Golf Course COP Fund (Fund 361) to pay the annual debt service costs associated with the bond issued for the Golf Course Reconfiguration capital project as well as the refinanced debt service costs associated with the bond issued to construct downtown parking improvements in 2002. Ongoing costs for annual the debt service will be funded through this transfer from the General Fund.	$ 339,010	$ -
Administrative Services	**Transfer from 2002 Downtown Parking Improvement Fund** This action recognizes a transfer of the remaining funds from the 2002 Downtown Parking Improvement Fund to be used towards the remaining debt service for the 2002 downtown parking improvements that was refinanced as part of the 2018 Golf Course COP issuance.	$ 15,591	$ -
Administrative Services	**Transfer from Capital Improvement Fund** This action recognizes a transfer of funding that was set aside in the Capital Improvement Fund to pay for the 2018 Golf Course COP issuance. The remaining funds will be used to pay for the annual debt service costs.	$ 17,507	
Administrative Services	**Debt Service Payments** This action appropriates funding for the debt service payments associated with the 2018 Golf Course COP issuance and the remaining refinanced 2002 Downtown Parking Improvement debt.	$ -	$ 354,602
Fund Balance	**Adjustment to Fund Balance** This action increases the fund balance to offset adjustments recommended in this report.	$ -	$ 17,506
	2018 GOLF COURSE COP FUND (361) SUBTOTAL	**$ 372,108**	**$ 372,108**

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
DEBT SERVICE & AGENCY TRUST FUNDS			
2019 CALIFORNIA AVENUE PARKING GARAGE COP FUND (362)			
Administrative Services	**Bond Proceeds** This action appropriates revenue to fund the costs associated with the issuance of the New California Avenue Area Parking Garage (PE-18000) COP funding.	$ 301,606	$ -
Administrative Services	**Debt Service Payments** This action appropriates funding for the costs associated with the issuance of the 2019 California Avenue Parking Garage COP funding.	$ -	$ 285,781
Fund Balance	**Adjustment to Fund Balance** This action increases the fund balance to offset adjustments recommended in this report and close this fund.	$ -	$ 15,825
	2019 CALIFORNIA AVENUE PARKING GARAGE COP FUND (362) SUBTOTAL	**$ 301,606**	**$ 301,606**

ATTACHMENT B, EXHIBIT 2

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 CAPITAL IMPROVEMENT PROGRAM

Project Number	Title	Revenue	Expense	Comments
	CAPITAL IMPROVEMENT FUND			
AS-10000	Capital Improvement Fund Administration		$ (299,500)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
AC-18000	Performing Arts Venues Seat Replacement		$ (3,800)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
AC-18001	JMZ Renovation		$ (34,300)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
FD-18000	Self-Contained Breathing Apparatus (SCBA) Replacement		$ (16,900)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
FD-19000	Fire and Utilities Trench Training Facility	$ (55,000)	$ (55,000)	Adjustment to shift a Transfer from the Utility Administration Fund to FY 2020 to align with project expenditures.
OS-00001	Open Space Trails and Amenities		$ 121,200	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
OS-00002	Open Space Lakes And Pond Maintenance		$ (2,300)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
OS-09001	Off-Road Pathway Resurfacing And Repair		$ (14,000)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-08001	Rinconada Park Improvements		$ 54,900	Adjustment to increase project due to higher than anticipated expenditures in FY 2019. Funding budgeted for this project in FY 2020 is being used to maintain the total project budget of $4.7 million.
PE-09003	City Facility Parking Lot Maintenance		$ (10,800)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-12003	Rinconada Park Long Range Plan		$ (3,500)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-13003	Parks, Trails, Open Space, & Recreation Master Plan		$ 3,400	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-13011	Charleston/Arastradero Corridor Project		$ 261,400	Adjustment to increase project due to higher than anticipated expenditures in FY 2019. Funding budgeted for this project in FY 2020 is being used to maintain the total project budget of $19.6 million.
PE-13014	Street Lights Condition Assessment		$ (8,600)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-14015	Lucie Stern Buildings Mechanical and Electrical Upgrades		$ 172,400	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-15001	New Public Safety Building		$ 151,200	Adjustment to increase project due to higher than anticipated expenditures in FY 2019. Funding budgeted for this project in FY 2020 is being used to maintain the total project budget of $115.5 million.

ATTACHMENT B, EXHIBIT 2

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 CAPITAL IMPROVEMENT PROGRAM

Project Number	Title	Revenue	Expense	Comments
PE-15003	Fire Station 3 Replacement		$ 212,900	Adjustment to increase project due to higher than anticipated expenditures in FY 2019. Funding budgeted for this project in FY 2020 is being used to maintain the total project budget of $10.1 million.
PE-15007	New Downtown Parking Garage	$ (14,613,000)	$ (14,613,000)	Adjustments to shift Transfers from the Stanford University Medical Center (SUMC) Fund ($9,072,000) and University Avenue Parking In Lieu Fund ($5,541,000) to FY 2022 to align with project expenditures.
PE-15028	Baylands Levee Improvements Feasibility		$ (500)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-17000	Michell Park Adobe Creek Bridge Replacement		$ 125,800	Adjustments to allocate Salaries and Benefits across capital projects based on actual expenditures ($93,700) and to increase project due to higher than anticipated expenditures ($32,100).
PE-17002	City Hall Floor 3 Remodel		$ (9,300)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-17004	California Avenue District Gateway Signs		$ 500	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-17005	Boulware Park Improvements		$ 22,700	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-17006	Baylands Flood Protection Levee Improvements		$ (39,100)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-17008	City Hall Floor 4 Remodel		$ 46,400	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-17009	City Hall Floor 5 Remodel		$ 45,100	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-18006	Byxbee Park Completion	$ (2,400,000)	$ -	Adjustment to shift a Transfer from the Parks Dedication Fee Fund to align with project expenditures budgeted in FY 2021.
PE-18016	Civic Center Fire Life Safety Upgrades		$ (8,400)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-19000	City Hall Space Planning		$ (2,900)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-86070	Street Maintenance	$ (900,000)	$ (900,000)	Adjustment to shift a Transfer from the San Antonio/West Bayshore Fee Fund to the Traffic Signal & Intelligent Transportation System Upgrades project (PL-05030) in FY 2020 as approved in the FY 2020 Adopted Capital Budget.
PF-01003	Building Systems Improvements		$ 3,500	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PF-02022	Facility Interior Finishes Replacement		$ (26,000)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures

ATTACHMENT B, EXHIBIT 2

CITY OF PALO ALTO

RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 CAPITAL IMPROVEMENT PROGRAM

Project Number	Title	Revenue	Expense	Comments
PF-07011	Roth Building Maintenance		$ (1,100)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PF-14003	University Avenue Parking Improvements		$ (13,300)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PF-16006	Municipal Service Center Lighting, Mechanical, and Electrical Improvements	$ (456,000)	$ (478,100)	Adjustments to allocate Salaries and Benefits across capital projects based on actual expenditures ($22,100) and shift Transfers from the Refuse Fund ($8,000), Utility Administration Fund ($288,000), and Vehicle & Maintenance Fund ($160,000) to FY 2020 to align with reappropriation actions approved in the FY 2020 Adopted Capital Budget.
PF-17000	Municipal Service Center A, B, & C Roof Replacement	$ (1,083,000)	$ (1,157,300)	Adjustments to allocate Salaries and Benefits across capital projects based on actual expenditures ($74,300) and shift Transfers from the Refuse Fund ($19,000), Utility Administration Fund ($684,000), and Vehicle & Maintenance Fund ($380,000) to FY 2020 to align with reappropriation actions approved in the FY 2020 Adopted Capital Budget.
PF-18000	Parking Lot J Elevator Modernization		$ (29,300)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PG-06003	Benches, Signage, Walkways, Perimeter Landscaping, and Site Amenities		$ 28,200	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PG-09002	Park & Open Space Emergency Repairs		$ 28,800	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PG-15000	Buckeye Creek Hydrology Study		$ (17,300)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PG-17000	Baylands Comprehensive Conservation Plan		$ (4,600)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PG-17001	Foothills Park, Pearson Arastradero Preserve, and Esther Clark Park Conservation Plan		$ (15,100)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PG-18001	Dog Park Installation and Renovation		$ 1,800	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PG-18002	Turf Management Plan		$ (5,000)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PG-19000	Park Restroom Installation	$ (350,000)	$ (367,600)	Adjustments to allocate Salaries and Benefits across capital projects based on actual expenditures ($17,600) and shift a Transfer from the Parks Development Impact Fee Fund ($350,000) to FY 2020 to align with reappropriation actions approved in the FY 2020 Adopted Capital Budget.

ATTACHMENT B, EXHIBIT 2

CITY OF PALO ALTO

RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 CAPITAL IMPROVEMENT PROGRAM

Project Number	Title	Revenue	Expense	Comments
PG-19001	Baylands Athletic Center 10.5 Acre Expansion Plan		$ (5,100)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PL-00026	Safe Routes To School		$ (13,400)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PL-04010	Bicycle and Pedestrian Transportation Plan Implementation	$ (1,200,000)	$ (1,200,000)	Adjustment to shift a Transfer from the Stanford University Medical Center (SUMC) Fund to FY 2020 to align with reappropriation actions approved in the FY 2020 Adopted Capital Budget.
PL-05030	Traffic Signal and Intelligent Transportation Systems		$ (103,000)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PL-11002	California Avenue - Transit Hub Corridor Project		$ (15,000)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PL-12000	Transportation and Parking Improvements		$ (25,000)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PL-15002	Downtown Automated Parking Guidance Systems, Access Controls & Revenue Collection Equip.	$ (1,100,000)	$ (1,100,000)	Adjustment to remove a Transfer from the University Avenue Parking District Fund to this project in order to preserve the funds for future parking related capital needs.
PL-15003	Parking District Implementation		$ (11,600)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PL-15004	Downtown Parking Wayfinding		$ (31,900)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PL-16000	Quarry Road Improvements and Transit Center Access		$ (17,300)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PL-16002	Parking Management and System Implementation	$ (1,000,000)	$ (1,115,900)	Adjustments to allocate Salaries and Benefits across capital projects based on actual expenditures ($115,900) and shift Transfers from the California Avenue Parking District Fund ($138,000), Residential Parking Permits Program Fund ($255,000), and University Avenue Parking District Fund ($607,000) to FY 2020 to align with reappropriation actions approved in the FY 2020 Adopted Capital Budget.
PL-18000	El Camino Real Pedestrian Safety and Streetscape Project		$ (17,900)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PL-19000	Emergency Vehicle Traffic Signal Preemption System Pilot		$ 400	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PO-11000	Sign Reflectivity Upgrade		$ (6,500)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PO-11001	Thermoplastic Lane Marking and Striping		$ (15,800)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PO-12001	Curb and Gutter Repairs		$ (16,500)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures

ATTACHMENT B, EXHIBIT 2

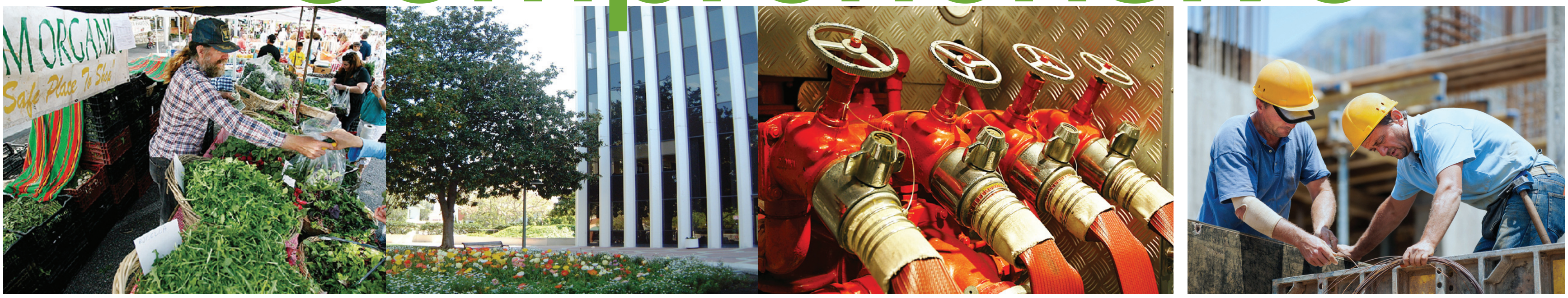
CITY OF PALO ALTO

RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 CAPITAL IMPROVEMENT PROGRAM

Project Number	Title	Revenue	Expense	Comments
PO-89003	Sidewalk Repairs		$ 596,500	Adjustments to allocate Salaries and Benefits across capital projects based on actual expenditures ($506,400) and to increase project due to higher than anticipated expenditures ($90,100).
	Total	**$ (23,157,000)**	**$ (19,954,400)**	
	CUBBERLEY PROPERTY INFRASTRUCTURE FUND			
CB-19000	Cubberley Track and Field Replacement		$ 3,500	Increase to project due to higher than anticipated expenditures.
	Total	**$ -**	**$ 3,500**	
	ELECTRIC FUND			
EL-89038	Substation Protection Improvements		$ 127,600	Increase to project due to higher than anticipated expenditures.
EL-98003	Electric System Improvements		$ 261,200	Increase to project due to higher than anticipated expenditures.
	Total	**$ -**	**$ 388,800**	
	GAS FUND			
GS-11002	Gas Distribution System Improvements		$ 600	Increase to project due to higher than anticipated expenditures.
	Total	**$ -**	**$ 600**	
	STORMWATER MANAGEMENT FUND			
SD-13003	Matadero Creek Storm Water Pump Station		$ 22,800	Increase to project due to higher than anticipated expenditures.
	Total	**$ -**	**$ 22,800**	
	WASTEWATER COLLECTION FUND			
WC-80020	Sewer System, Customer Connections		$ 29,700	Increase to project due to higher than anticipated expenditures.
WC-99013	Sewer Lateral/Manhole Rehabilitation and Replacement		$ 75,000	Increase to project due to higher than anticipated expenditures.
	Total	**$ -**	**$ 104,700**	
	WATER FUND			
WS-80013	Water System, Customer Connections		$ 96,800	Increase to project due to higher than anticipated expenditures.
	Total	**$ -**	**$ 96,800**	
	TOTAL CIP ADJUSTMENTS	**$ (23,157,000)**	**$ (19,337,200)**	

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

Comprehensive



Annual

Financial Report

CITY OF
PALO
ALTO

Fiscal Year 2019 Comprehensive Annual Financial Report

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

City Council

Eric Filseth, Mayor

Adrian Fine, Vice Mayor

Alison Cormack

Tom DuBois

Liz Kniss

Lydia Kou

Greg Tanaka

Edward K. Shikada, City Manager

Kiely Nose, Director of Administrative Services/Chief Financial Officer

Rima Lobo, Finance Manager

Prepared by: Administrative Services Department

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

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City of Palo Alto
Office of the City Manager

Transmittal Letter

November 4, 2019

THE HONORABLE CITY COUNCIL

Palo Alto, California

Attention: Finance Committee

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2019

Members of the Council and Citizens of Palo Alto:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2019 in accordance with Article III, Section 16 and Article IV, Section 13 of the City of Palo Alto Charter. The format and content of this CAFR complies with the principles and standards of accounting and financial reporting adopted by the Governmental Accounting Standards Board (GASB), and contains all information needed for readers to gain a reasonable understanding of City of Palo Alto (City) financial affairs. Management takes sole responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. The objective of internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

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

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

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

CITY OF PALO ALTO PROFILE

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

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

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

FISCAL/ECONOMIC CONDITIONS AND OUTLOOK

Employment Trends: The City is located in the heart of Silicon Valley and is adjacent to Stanford University, one of the premier institutions of higher education in the nation which has produced much of the talent that founded many successful high-tech companies in Palo Alto and Silicon Valley. With varied and relatively stable employers such as Stanford University, Stanford Medical Center, Palo Alto Medical Foundation, Palo Alto Unified School District, Stanford Shopping Center and businesses such as Hewlett-Packard, VMware, Tesla, Palantir and Space Systems Loral, Palo Alto has enjoyed diverse employment and revenue bases. The City's unemployment rate ended the year at 2.2 percent. This compares to Santa Clara County's unemployment rate of 2.7 percent. The state's unemployment rate was 4.5 percent.

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

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

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

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

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

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

While each of these priorities require long-term strategies, progress will be made on all through FY 2020 Budget. Staff presented a "Fiscal Sustainability" workplan to the Finance Committee, articulating the ecosystem of available resources, desired outcomes, and long-term solvency of the City. Proactively contributing to the City's supplemental pension trust fund will help ensure pension funding and minimize the need for future service reductions. It also means including cost containment actions, such as the elimination of positions throughout the organization, changes in Fire's deployment model, and reductions in non-salary funding in several departments to balance the FY 2020 budget and better position the City for FY 2021.

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

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

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

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

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

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

SIGNIFICANT EVENTS AND ACCOMPLISHMENTS

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

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

Awards: During the past year, the City received an award for the prior fiscal year CAFR from the Government Finance Officers Association (GFOA) for "excellence in financial reporting." The 2019 CAFR will be submitted to the GFOA award program to be considered for this distinguished financial reporting award.

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

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

Respectfully submitted,

Kiely S. Nosé

KIELY NOSE
Chief Financial Officer

EDWARD SHIKADA
City Manager

City of Palo Alto City Officials ....

City Council

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

Finance Committee

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

Policy and Services Committee

Liz Kniss, ***Chair***
Lydia Kou
Greg Tanaka

Council-Appointed Officers

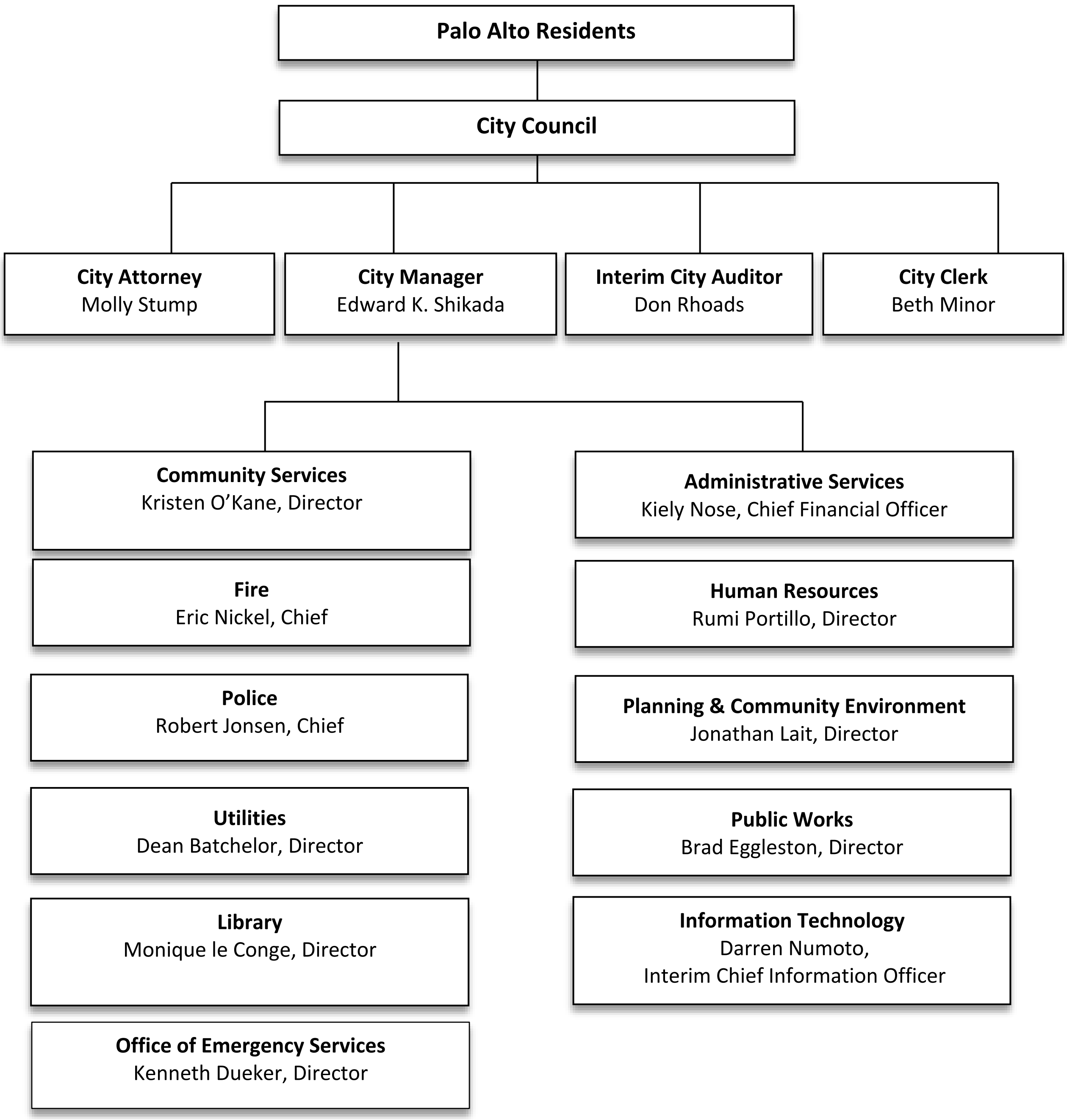
City Manager
Ed Shikada

City Attorney
Molly Stump

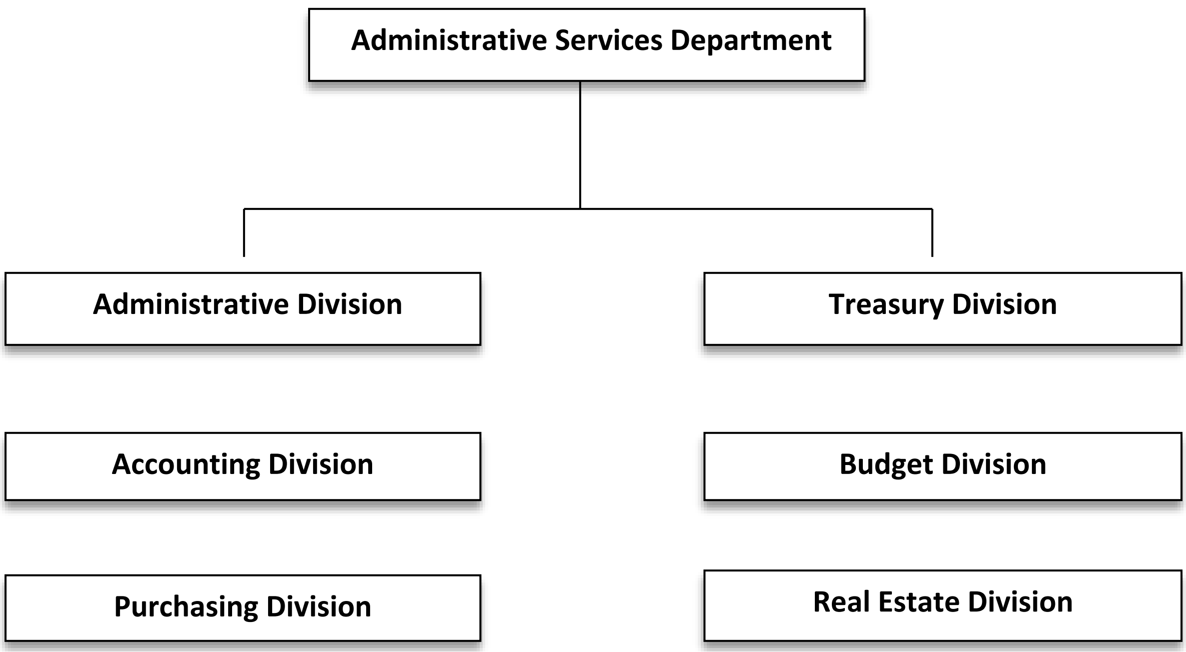
City Clerk
Beth Minor

Interim City Auditor
Don Rhoads

City of Palo Alto Organization ……………………………………



Administrative Services Organization ....



Mission Statement

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

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

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Palo Alto
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morrill

Executive Director/CEO

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Certified
Public
Accountants

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Palo Alto, California (City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 4, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 4, 2019

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Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) provides an overview of the City of Palo Alto's financial performance for the fiscal year ended June 30, 2019. To obtain a complete understanding of the City's financial condition, this document should be read in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

Financial Highlights

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

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

The CAFR is presented in six sections:

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

Basic Financial Statements

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

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

Government-wide Financial Statements

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

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

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

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

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

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

Business-type Activities - All of the City's enterprise activities are reported as business-type activities, including Water, Electric, Fiber Optics, Gas, Wastewater Collection, Wastewater Treatment, Refuse, Storm Drainage, and Airport. Unlike governmental services, these services are intended to recover all or a significant portion of their costs through user fees and charges.

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

Fund Financial Statements

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

The Fund Financial Statements display the City's operations in more detail than the Government-wide Financial Statements. Their focus is primarily on the short-term activities of the City's General Fund and other major funds.

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

Governmental Funds

Governmental Fund Financial Statements are prepared on the modified accrual basis of accounting, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the Government-wide Financial Statements. In FY 2019, the City had two major governmental funds, the General Fund and the Capital Projects Fund. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the Supplemental section of this report.

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

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

Proprietary Funds

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

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

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

Fiduciary Funds

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

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

Notes to the Financial Statements

The Notes provide additional information that is necessary to acquire a full understanding of the data provided in the Government-wide and Fund Financial Statements. The Notes to the financial statements can be found on pages 47-106 of this report.

Other Information

The Required Supplementary Information related to the City's pension and OPEB plans is included after the Notes to the Financial Statements on pages 107-112. The combining statements referred to earlier in connection with non-major Governmental Funds and Internal Service Funds, are presented immediately following the Required Supplementary Information. Combining statements and individual fund statements and schedules can be found on pages 113-138 of this report.

Financial Analysis of Government-wide Financial Statements

This section focuses on the City's net position and changes in net position of its governmental and business-type activities for the fiscal year ending June 30, 2019. As noted earlier, the City's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $1.2 billion at the end of the fiscal year, a change in net position of $76.0 million.

STATEMENT OF NET POSITION
As of June 30, 2019
(in millions)

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

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

The restricted portion of the City's net position (4.2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of $46.0 million, representing 3.9 percent of the City's net position, is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive unrestricted net positions for the government as a whole. The unrestricted net position for governmental activities is negative due to the implementation of GASB Statement No. 68 and 75. The business-type activities has positive unrestricted net position at the end of the current fiscal year.

Components of the $76.0 million increase in total net position are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities – Net Position

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

GOVERNMENTAL ACTIVITIES
Net Position at June 30
(in millions)

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

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

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

Governmental Activities – Revenues

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

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

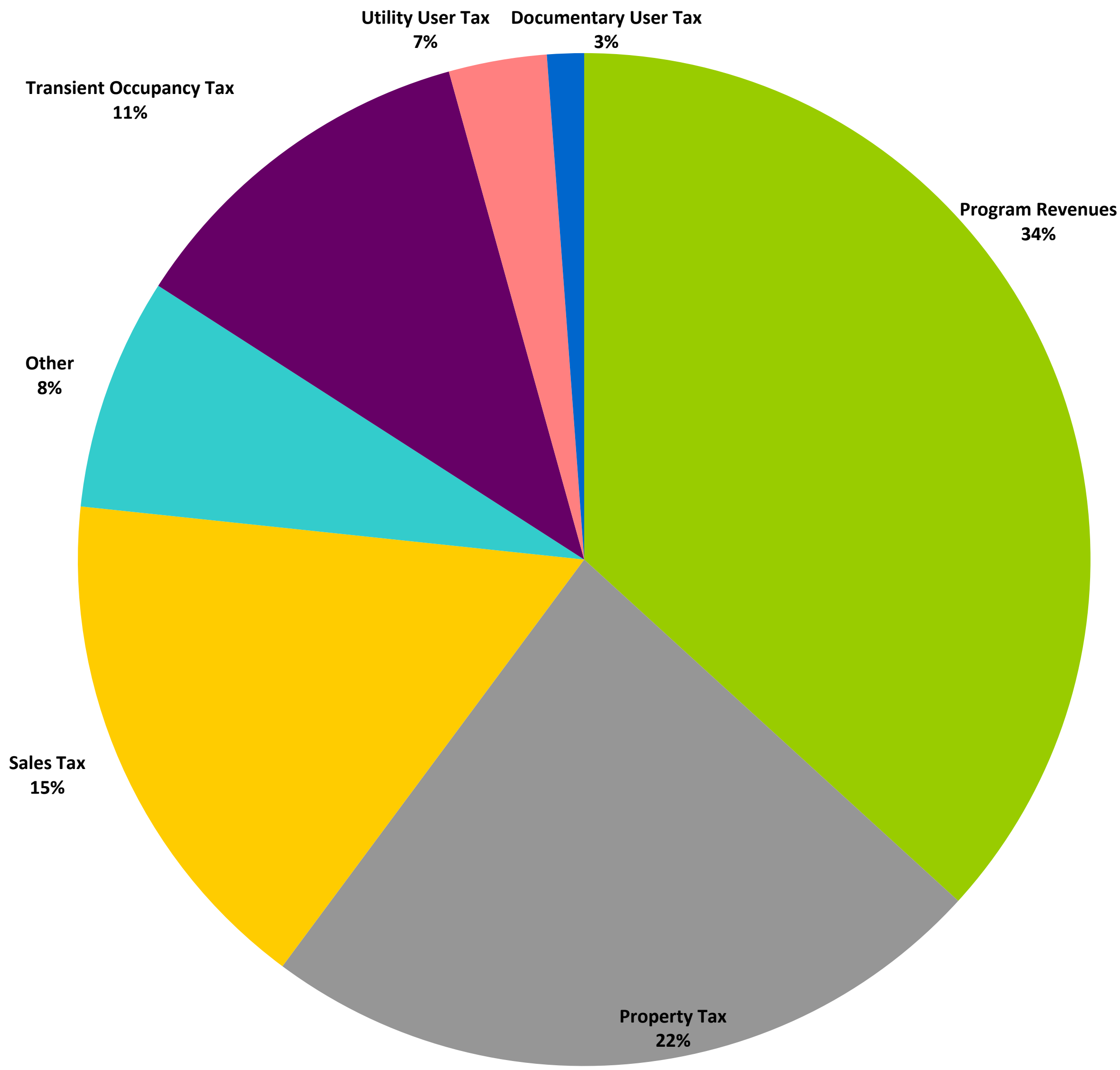
Revenues by Source	2019	2018	Increase/ (Decrease)
Program Revenues:			
Charges for services	$ 70.9	$ 63.4	$ 7.5
Operating grants and contributions	2.1	14.1	(12.0)
Capital grants and contributions	8.3	1.5	6.8
Total Program Revenues	**81.3**	**79.0**	**2.3**
General Revenues:			
Property tax	51.7	47.2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

Program Revenues such as charges for services, operating grants and contributions, and capital grants and contributions are generated from or restricted to each activity.

General Revenues increased $24.8 million, or 18.75 percent, from the prior year primarily due to increases in General fund tax revenues and investment earnings resulted from the recognition of unrealized gains. Further analysis of general revenues can be found in the Financial Analysis of Governmental Funds section of the MD&A.

Governmental Activities – Revenues by Source

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


Utility User Tax
7%
Documentary User Tax
3%
Transient Occupancy Tax
11%
Program Revenues
34%
Other
8%
Sales Tax
15%
Property Tax
22%

Governmental Activities – Expenses

The table below presents a comparison of FY 2019 and FY 2018 expenses by function, along with interest and other expenses. Total Governmental Activities functional expense was $234.4 million in FY 2019, an increase of $23.3 million.

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

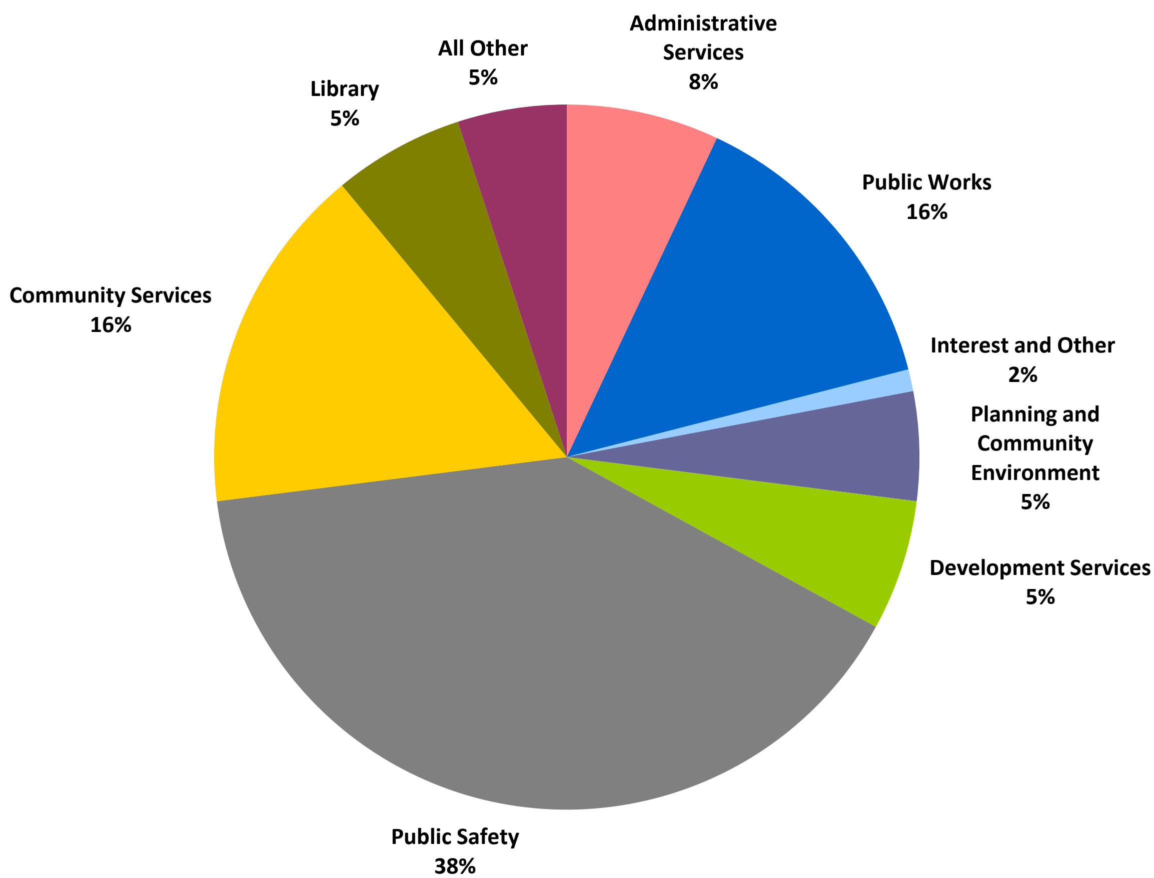
Activities	**2019**	**2018**	**Increase/ (Decrease)**
City Council	$ 0.3	$ 0.3	$ (0.0)
City Manager	3.3	2.8	0.5
City Attorney	3.1	2.5	0.6
City Clerk	0.8	0.9	(0.1)
City Auditor	1.1	1.0	0.1
Administrative Services	19.2	13.9	5.3
Human Resources	3.0	2.7	0.3
Public Safety	89.2	83.9	5.3
Planning and Community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

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

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

Governmental Activities – Functional Expenses

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



Business-type Activities – Net Position

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

BUSINESS-TYPE ACTIVITIES
Net Position at June 30
(in millions)

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

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

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

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

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

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

Unrestricted net position of $135.4 million, an increase of $25.0 million from the prior year, represents assets available to finance day-to-day operations and other expenditures approved by Council. This amount includes rate stabilization reserves (RSR) of $51.0 million and operations reserves of $81.3 million, along with the electric special projects (Calaveras) reserve of $41.7 million, and the hydro stabilization reserve of $11.4 million. The positive balances in these reserves are offset by the GASB 68 adjustment pension reserve of $97.3 million and GASB 75 OPEB reserve of $38.7 million. Additional details are included in Note 10.

Business-type Activities – Revenues

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

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

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

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

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

Business-type Activities – Expenses

The table below presents a comparison of the FY 2019 and FY 2018 expenses for the City's Business-type Activities. Encumbrances and reappropriations are not included.

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

Business-type Activities	**2019**	**2018**	**Increase/ (Decrease)**
Water	$ 40.6	$ 40.8	$ (0.2)
Electric	139.6	146.0	(6.4)
Fiber Optics	2.5	2.7	(0.2)
Gas	30.9	27.9	3.0
Wastewater Collection	17.3	16.8	0.5
Wastewater Treatment	27.1	27.5	(0.4)
Refuse	30.4	28.8	1.6
Storm Drainage	4.9	5.1	(0.2)
Airport	1.8	1.7	0.1
Total Functional Expense	**295.1**	**297.3**	**(2.2)**
Increase in Net Position before Transfers	72.1	48.2	23.9
Transfers out	(18.7)	(19.1)	0.4
Change in Net Position	53.4	29.1	24.3
Net Position, Beginning	688.1	699.3	(11.2)
Reinstatement for implementationfor GASB 75	0.0	(40.3)	40.3
Net Position, Ending	**$ 741.5**	**$ 688.1**	**$ 53.4**

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

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

FUND FINANCIAL STATEMENTS

Financial Analysis of Governmental Funds

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

Governmental Funds

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

As of June 30, 2019, the City's Governmental Funds reported combined fund balances of $305.0 million, an increase of $53.8 million from the prior year. Approximately 18.0 percent, or $54.8 million, constitutes unassigned fund balance, which is available for spending at the government's discretion and other purposes. The remainder of the fund balance is either non-spendable, restricted, committed, or assigned to indicate that it is: 1) not in spendable form ($10.1 million); 2) restricted for particular purposes ($85.9 million); 3) committed for particular purposes ($89.7 million); or 4) assigned for particular purposes (64.5 million).

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

Governmental Fund expenditures were $234.9 million, an increase of $15.4 million from the prior year. General Fund expenditures increased $10.1 million, Capital Projects Fund expenditures increased by $5.9 million, and Non-major Fund expenditures decreased by $0.7 million. Details of significant changes are discussed in the following sections.

General Fund

Balance Sheet

The General Fund is the primary operating fund of the City. At the end of the current fiscal year, fund balance of the General Fund was $75.2 million, compared to $68.3 million in the prior year. The fund balance has been classified as $7.6 million non-spendable, $5.0 million committed, $7.7 million assigned and $54.8 million unassigned. The unassigned amount is designated by the Council for Budget Stabilization Reserve (BSR) and other purposes.

Statement of Revenues, Expenditures and Changes in Fund Balance

Revenues

The City's General Fund revenues totaled $197.1 million in FY 2019. This represents an increase of $17.1 million, or 9.5 percent, compared to the prior year. The year over year change in significant revenue sources is noted in the following table.

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

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

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

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

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

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

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

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

Expenditures

General Fund expenditures totaled $175.7 million for FY 2019 compared to $165.6 in the prior year. This amount excludes encumbrances and reappropriations. The year over year change for major functions is noted in the following table.

GENERAL FUND

Expenditures for the Year Ended June 30

(in millions)

Expenditures by Function	**2019**	**2018**	**Increase/ (Decrease)**
Administrative Services	$ 5.5	$ 5.3	$ 0.2
Public Works	13.8	14.6	(0.8)
Planning and Community Environment	8.1	8.3	(0.2)
Development Services	11.5	11.7	(0.2)
Police	42.9	40.3	2.6
Fire	33.5	33.5	(0.0)
Community Services	28.9	27.1	1.8
Library	9.3	9.1	0.2
Non-Departmental	11.8	6.0	5.8
All other	10.5	9.6	0.9
Total Expenditures	**$ 175.7**	**$ 165.5**	**$ 10.2**

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

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

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

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

Original budget compared to final budget

Revenues were originally budgeted at $194.7 million and were revised upward by $11.5 million. Revenue categories that were adjusted are shown in the table below.

GENERAL FUND

Budgeted Revenues for the Year Ended June 30

(in millions)

Budgeted Revenues	Adopted Budget	Final Budget	Increase/ (Decrease)
Property tax	$ 45.3	$ 46.2	$ 0.9
Sales tax	31.2	31.7	0.5
Utility user tax	16.1	16.1	0.0
Transient occupancy tax	25.0	25.4	0.3
Documentary transfer tax	7.4	8.0	0.6
All other	59.6	60.8	1.2
	184.6	188.2	3.6
Charges to other funds	10.1	10.1	-
Prior year encumbrances and reappropriations	-	7.8	7.8
Total Budgeted Revenues	**$ 194.7**	**$ 206.2**	**$ 11.4**

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

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

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

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

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

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

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

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

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

Capital Projects Fund

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

Non-major Funds

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

Financial Analysis of Enterprise Funds

At June 30, 2019, the City's Enterprise Funds reported total net position of $741.5 million, an increase of $53.4 million or 7.8 percent from the prior year. The increase was primarily from the Electric Fund. Further analysis is noted in the following section. Unrestricted net position for the Enterprise Funds totaled $135.3 million, a 23.7 percent increase from FY 2018.

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

ENTERPRISE FUNDS

Change in Net Position for the Year Ended June 30

(in millions)

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

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

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

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

CAPITAL ASSETS

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

CAPITAL ASSETS AT JUNE 30
(in millions)

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

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

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

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

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

Business-type Activities' capital assets net of depreciation increased by $36.8 million over FY 2018. The increase is primarily due to Water, Electric, Wastewater Treatment, Storm Drainage and Airport infrastructure improvements.

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

- Water Main Replacement for Water fund - $7.1 million
- Wastewater Collection Fund Rehabilitation/Augmentation – $4.6 million
- Airport Apron Reconstruction Project - $7.7 million

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

DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 7 to the financial statements. The City's debt as of June 30, 2019 is shown in the following table.

LONG-TERM DEBT AT JUNE 30
(in millions)

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

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

SPECIAL ASSESSMENT DISTRICT DEBT

Special assessment districts throughout different parts of the City have also issued debt to finance infrastructure and facilities construction exclusively in their districts. As of June 30, 2019, the City had no special assessment district debt with City commitment outstanding.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and investments available for operations (Note 3)	$ 297,243	$ 249,368	$ 546,611
Receivables, net:			
Accounts and intergovernmental	25,574	49,424	74,998
Interest receivable	2,248	1,626	3,874
Notes and loans receivable (Note 5)	34,099	-	34,099
Internal balances (Note 4)	3,069	(3,069)	-
Deposits	65	-	65
Due from other government agencies	-	3,000	3,000
Inventory of materials and supplies, prepaids and deposits	4,765	291	5,056
Restricted cash and investments with fiscal agents and trustees (Note 3)	56,803	4,016	60,819
Capital assets (Note 6):			
Nondepreciable	202,857	162,959	365,816
Depreciable, net of accumulated depreciation	363,246	510,562	873,808
Total assets	989,969	978,177	1,968,146
DEFERRED OUTFLOWS OF RESOURCES:			
Unamortized loss from refunding	-	209	209
Pension related (Note 11)	52,032	16,963	68,995
OPEB related (Note 12)	11,397	4,600	15,997
Total deferred outflows of resources	63,429	21,772	85,201
LIABILITIES:			
Accounts payable and accruals	18,388	18,835	37,223
Accrued salaries and benefits	1,780	771	2,551
Unearned revenue	2,976	-	2,976
Accrued compensated absences (Note 1):			
Due in one year	6,273	-	6,273
Due in more than one year	6,062	-	6,062
Claims payable (Note 14):			
Due in one year	6,171	-	6,171
Due in more than one year	22,194	-	22,194
Landfill post-closure liability (Note 9):			
Due in more than one year	-	6,975	6,975
Net pension liabilities (Note 11):			
Due in more than one year	312,021	111,875	423,896
Net OPEB liabilities (Note 12):			
Due in more than one year	105,322	42,498	147,820
Long-term debt (Note 7):			
Due in one year	2,631	5,291	7,922
Due in more than one year	112,505	68,957	181,462
Total liabilities	596,323	255,202	851,525
DEFERRED INFLOWS OF RESOURCES:			
Pension related (Note 11)	5,142	2,417	7,559
OPEB related (Note 12)	1,950	787	2,737
Total deferred inflows of resources	7,092	3,204	10,296
NET POSITION (Note 10):			
Net Investment in capital assets	493,706	602,136	1,095,842
Restricted for:			
Transportation, infrastructure and other	39,507	-	39,507
Debt service	3,694	4,016	7,710
Nonexpendable - Eyerly Family	2,438	-	2,438
Total restricted net position	45,639	4,016	49,655
Unrestricted	(89,362)	135,391	46,029
Total net position	$ 449,983	$ 741,543	$ 1,191,526

See accompanying notes to the basic financial statements.

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CITY OF PALO ALTO
Statement of Activities
For the Year Ended June 30, 2019
(Amounts in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
City Council	$ 270	$ -	$ -	$ -	$ (270)	$ -	$ (270)
City Manager	3,336	-	341	-	(2,995)	-	(2,995)
City Attorney	3,086	-	-	-	(3,086)	-	(3,086)
City Clerk	822	-	-	-	(822)	-	(822)
City Auditor	1,081	-	-	-	(1,081)	-	(1,081)
Administrative Services	19,169	6,413	-	-	(12,756)	-	(12,756)
Human Resources	3,021	-	-	-	(3,021)	-	(3,021)
Public Works	36,617	1,478	-	2,046	(33,093)	-	(33,093)
Planning and Community Environment	12,169	11,997	1,041	-	869	-	869
Development Services	12,622	13,904	-	-	1,282	-	1,282
Police	49,816	4,180	418	-	(45,218)	-	(45,218)
Fire	39,373	9,999	266	-	(29,108)	-	(29,108)
Community Services	36,815	22,805	-	6,201	(7,809)	-	(7,809)
Library	12,557	134	34	-	(12,389)	-	(12,389)
Interest on long-term debt	3,653	-	-	-	(3,653)	-	(3,653)
Total Governmental Activities	234,407	70,910	2,100	8,247	(153,150)	-	(153,150)
Business-Type Activities:							
Water	40,606	45,571	488	524	-	5,977	5,977
Electric	139,605	163,514	-	-	-	23,909	23,909
Fiber Optics	2,476	4,657	-	-	-	2,181	2,181
Gas	30,915	42,113	-	-	-	11,198	11,198
Wastewater Collection	17,324	20,219	-	283	-	3,178	3,178
Wastewater Treatment	27,070	27,573	-	-	-	503	503
Refuse	30,391	33,996	-	-	-	3,605	3,605
Storm Drainage	4,951	7,249	-	-	-	2,298	2,298
Airport	1,790	2,483	-	5,870	-	6,563	6,563
Total Business-Type Activities	295,128	347,375	488	6,677	-	59,412	59,412
Total	$ 529,535	$ 418,285	$ 2,588	$ 14,924	(153,150)	59,412	(93,738)
General Revenues:							
Taxes:							
Property tax					51,718	-	51,718
Sales tax					36,508	-	36,508
Utility user tax					16,402	-	16,402
Transient occupancy tax					25,649	-	25,649
Documentary transfer tax					6,923	-	6,923
Other taxes					2,602	-	2,602
Investment earnings					15,375	12,680	28,055
Miscellaneous					1,906	-	1,906
Transfers (Note 4)					18,680	(18,680)	-
Total general revenues and transfers					175,763	(6,000)	169,763
Change in net position					22,613	53,412	76,025
Net position, beginning of year					427,370	688,131	1,115,501
Net position, end of year					$ 449,983	$ 741,543	$ 1,191,526

See accompanying notes to the basic financial statements.

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

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

See accompanying notes to the basic financial statements.

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

Total fund balances reported on the governmental funds balance sheet	$ 305,019
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	63,429
Deferred inflows of resources	(7,092)
Certain receivables are not available to pay for current period expenditures and therefore are deferred in the governmental funds.	1,406
Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds (Note 6)	566,103
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)	55,263
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds:	
Interest payable	(1,666)
Net pension liabilities (Note 11)	(312,021)
Net OPEB liabilities (Note 12)	(105,322)
Long-term debt (Note 7)	(115,136)
Net position of governmental activities	$ 449,983

See accompanying notes to the basic financial statements.

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

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

See accompanying notes to the basic financial statements.

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

Net change in fund balances - total governmental funds	$	53,848
Amounts reported for governmental activities in the statement of activities are different from those reported in the governmental funds because of the following:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of these assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense. Therefore, the activities associated with capital assets are as follows:		
Capital outlay added back to fund balance for current year additions		39,100
Depreciation expense is deducted from fund balance (depreciation expense is net of internal service fund depreciation of $3,500) (Note 6), which has already been allocated through the internal service fund activities below		(16,836)
Disposal of capital assets		(3,935)
Pension and OPEB contribution made subsequent to the measurement date is an expenditure in the governmental funds, but reported as a deferred outflows of resources in the government-wide financial statements		36,550
Pension and OPEB expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds		(56,544)
Principal payments on long-term liabilities are reported as expenditures in governmental funds when paid. The governmental activities, however, report principal payments as a reduction of long-term debt on the statement of net position. Interest accrued on long-term debt and amortization of premiums do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Therefore, the activities associated with long-term debt are as follows:		
Principal paid during the year		2,101
Proceeds from debt issuance		(42,297)
Change in interest payable		(461)
Amortization of bond premium		206
Revenues earned but not available are deferred in the governmental funds but are recognized in the government-wide financial statements. Also, revenues recognized in the governmental funds during the current year that were earned and recognized in previous years in the government-wide financial statements are reported as beginning net position in the statement of activities		1,406
Internal service funds are used by management to charge the costs of activities, such as insurance, equipment acquisition and maintenance, and employees benefits to individual funds. The portion of the net expense of these internal service funds arising out of their transactions with governmental funds is reported with governmental activities.		9,475
Change in net position of governmental activities	$	22,613

See accompanying notes to the basic financial statements.

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

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

See accompanying notes to the basic financial statements.

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

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

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

Net position reported in Business-type Activities

See accompanying notes to the basic financial statements.

	Business-Type Activities-Enterprise Funds						Governmental Activities - Internal Service Funds
					Non-Major		
	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Totals	
	$ 10,242	$ 12,792	$ 28,883	$ 6,201	$ 916	$ 249,368	$ 81,693
	2,735	2,927	4,070	830	4,224	49,424	2,264
	60	83	176	38	7	1,626	526
	-	300	-	-	-	300	-
	-	-	-	-	-	-	248
	-	-	-	-	-	4,016	14,030
	13,037	16,102	33,129	7,069	5,147	304,734	98,761
	-	2,700	-	-	-	2,700	-
	-	-	-	-	-	41	-
	-	167	-	-	-	250	-
	28,102	31,182	1,952	11,683	20,085	162,959	2,530
	60,785	36,164	3,243	29,678	589	510,562	19,281
	88,887	70,213	5,195	41,361	20,674	676,512	21,811
	101,924	86,315	38,324	48,430	25,821	981,246	120,572
	-	-	-	-	-	209	-
	1,312	3,450	756	687	260	16,963	2,914
	283	872	315	138	51	4,600	617
	1,595	4,322	1,071	825	311	21,772	3,531
	537	2,530	2,954	445	4,168	18,835	1,894
	58	149	27	30	11	771	121
	-	-	-	-	-	-	737
	-	-	-	-	-	-	6,273
	99	2,011	-	730	-	5,291	-
	-	-	-	-	-	-	6,171
	694	4,690	2,981	1,205	4,179	24,897	15,196
	-	-	-	-	-	-	6,062
	-	-	-	-	-	-	22,194
	-	-	-	-	3,115	3,115	-
	-	-	6,975	-	-	6,975	-
	8,965	22,703	6,022	4,006	846	111,875	16,527
	2,616	8,056	2,912	1,271	473	42,498	5,691
	452	30,555	-	3,336	-	68,957	-
	12,033	61,314	15,909	8,613	4,434	233,420	50,474
	12,727	66,004	18,890	9,818	8,613	258,317	65,670
	174	463	109	182	98	2,417	492
	48	149	54	24	9	787	106
	222	612	163	206	107	3,204	598
	88,336	37,780	5,195	37,295	20,674	602,136	21,811
	-	-	-	-	-	4,016	-
	2,234	(13,759)	15,147	1,936	(3,262)	135,345	36,024
	$ 90,570	$ 24,021	$ 20,342	$ 39,231	$ 17,412	741,497	$ 57,835
						46	
						$ 741,543	

See accompanying notes to the basic financial statements.

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

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

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

Change in net position reported in Business-type Activities

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental Activities-
				Non-Major		
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Totals	Internal Service Funds
$ 19,209	$ 16,907	$ 30,242	$ 6,787	$ 1,753	$ 284,469	$ -
133	9,887	823	405	-	20,353	-
-	-	-	-	-	13,752	-
311	-	-	-	-	5,801	-
-	-	-	-	-	-	103,010
566	779	2,931	57	730	23,000	796
20,219	27,573	33,996	7,249	2,483	347,375	103,806
9,843	-	16,056	-	-	139,726	-
-	-	-	-	-	13,022	-
1,719	-	1,542	1,066	1,078	24,885	12,659
326	2,173	237	210	-	5,560	-
-	-	-	971	-	8,474	-
2,836	20,930	9,987	1,418	598	59,411	13,578
320	-	2,182	43	-	10,531	-
2,210	2,870	116	941	21	20,829	3,500
-	-	-	-	-	-	8,998
-	-	-	-	-	-	147
-	-	-	-	-	-	68,258
17,254	25,973	30,120	4,649	1,697	282,438	107,140
2,965	1,600	3,876	2,600	786	64,937	(3,334)
452	649	1,239	317	49	12,679	4,429
(34)	(674)	(196)	(259)	(72)	(11,444)	-
-	-	-	-	-	-	275
(10)	-	-	-	-	(298)	-
-	-	-	-	-	488	42
408	(25)	1,043	58	(23)	1,425	4,746
3,373	1,575	4,919	2,658	763	66,362	1,412
283	-	-	-	5,870	6,677	-
-	-	-	-	-	3,874	9,560
(388)	(107)	(43)	(355)	(7)	(22,554)	(2,444)
3,268	1,468	4,876	2,303	6,626	54,359	8,528
87,302	22,553	15,466	36,928	10,786		49,307
$ 90,570	$ 24,021	$ 20,342	$ 39,231	$ 17,412		$ 57,835
					(947)	
					$ 53,412	

See accompanying notes to the basic financial statements.

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

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

See accompanying notes to the basic financial statements.

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

See accompanying notes to the basic financial statements.

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

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

See accompanying notes to the basic financial statements.

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

Page

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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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Reporting Entity

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

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

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

(b) Basis of Presentation

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

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Presentation (Continued)

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

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

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

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

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

(c) Major Funds and Other Funds

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Major Funds and Other Funds (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Major Funds and Other Funds (Continued)

The City also reports the following funds:

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

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

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

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Major Funds and Other Funds (Continued)

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

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

(d) Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the *economic resources* measurement focus and the *full accrual* basis of accounting. Agency funds do not have a measurement focus but are reported using the accrual basis of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Cash and Cash Equivalents

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

(f) Investments

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

(g) Inventory of Materials and Supplies

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

(h) Prepaid items

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

(i) Compensated Absences

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

During the fiscal year ended June 30, 2019, changes to the compensated absences liabilities were as follows (in thousands):

Beginning balance	$ 12,058
Additions	6,473
Payments	(6,196)
Ending balance	$ 12,335
Current portion	$ 6,273

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:

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

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

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

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

(l) Pensions and OPEB

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

(m) Rounding

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Effects of New Pronouncements

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Effects of New Pronouncements (Continued)

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

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

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

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

(o) Use of Estimates

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

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

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

NOTE 3 – CASH AND INVESTMENTS

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

Policies

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

NOTE 3 – CASH AND INVESTMENTS (Continued)

Classification

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

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

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.

NOTE 3 – CASH AND INVESTMENTS (Continued)

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

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

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

Debt Agreements:

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

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

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

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

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

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

NOTE 3 – CASH AND INVESTMENTS (Continued)

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

Fair Value Measurements

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

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

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

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

Local Agency Investment Fund

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

NOTE 3 – CASH AND INVESTMENTS (Continued)

Fidelity Institutional Asset Management

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

California Asset Management Program

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. As of June 30, 2019, the City's investments consisted of the following (in thousands):

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

Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

NOTE 3 – CASH AND INVESTMENTS (Continued)

Credit Risk

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

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

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

NOTE 3 – CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

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

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

Custodial Credit Risk

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

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

NOTE 4 – INTERFUND TRANSACTIONS

Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to subsidize a fund. Less often, a transfer may be made to open or close a fund. Transfers between City funds during FY 2019 were as follows on the following page (in thousands):

NOTE 4 – INTERFUND TRANSACTIONS (Continued)

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

NOTE 4 – INTERFUND TRANSACTIONS (Continued)

The reasons for these transfers are set forth below:

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

Current Interfund Balances

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

Long-Term Interfund Advance

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

Internal Balances

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

NOTE 5 – NOTES AND LOANS RECEIVABLE

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

Palo Alto Housing Corporation:		
Tree House Apartments	$	5,344
Emerson Street Project		375
Alma Single Room Occupancy Development		2,222
Barker Hotel		2,111
Sheridan Apartments		2,222
Oak Court Apartments, L.P.		7,834
El Dorado Palace LLC		150
Mid-Peninsula Housing Coalition:		
Palo Alto Gardens Apartments		100
Community Working Group, Inc.		1,280
Opportunity Center Associates, L.P.		945
Home Rehabilitation Loans		46
Below Market Rate Assessment Loans		53
Oak Manor Townhouse Water System		114
Lytton Gardens Assisted Living		101
Emergency Housing Consortium		75
Alma Gardens Apartments		1,150
2811-2825 Alma Street Acquisition		1,890
Palo Alto Family Housing, 801 Alma Street		6,422
Palo Alto Senior Housing Project - Stevenson House, LLC		901
MP Palo Alto Garden, LLC		672
Colorado Park Housing Corporation		204
Buena Vista - County of Santa Clara		14,500
Total Notes and Loans		48,711
Less: Valuation Allowance		(14,612)
Total Notes and Loans, Net	$	34,099

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.

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Tree House Apartments
In March 2009, the City agreed to loan $2.8 million to Tree House Apartments, L.P. (THA) for the purchase of the real property located at 488 West Charleston Road. The loan accrues simple interest at the rate of 3 percent per annum. The loan was funded with $1.8 million of Community Development Block Grant (CDBG) funds and $1.0 million of residential housing funds. An additional development loan in the amount of $2.5 million was approved by the City on October 18, 2010. As of June 30, 2019, the outstanding balance for THA in aggregate is $5.3 million. Principal and interest payments will be deferred, however if the borrower has earned extra income, and if it is acceptable to the other entities providing final permanent sources of funds, payment of interest and principal based on the City's proportionate share of the project's residual receipts from net operating income shall be made by the borrower. In no event shall full payment be made by the borrower later than concurrently with the expiration or earlier termination of the loan agreement, which is December 31, 2067.

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

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

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

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

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

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

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

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

Palo Alto Gardens Apartments
On April 22, 1999, the City loaned $1.0 million to Mid-Peninsula Housing Coalition (the Coalition) for the purchase and rehabilitation of a 155-unit complex for the continuation of low-income housing. The loan was funded with $659,000 of CDBG funds and $341,000 of Housing In-Lieu funds. The two notes bear interest at 3 percent and are secured by second deeds of trust and a City Affordability Reserve Account held by the Coalition. Principal and interest payments began in FY 2008. The principal balance of $100,000 is due in 2039.

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

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Opportunity Center Associates, L.P.

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

Home Rehabilitation Loans

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

Executive Relocation Assistance Loans

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

The original purchase cost for the City Manager's home was $1.9 million and the City held a 75 percent equity share. During FY 2011, the Council authorized a capital improvement loan of $125,000. Loans for capital improvements are made on a dollar for dollar matching basis, with an equal equity contribution made by the City Manager. In fiscal year 2019, the former City Manager sold the home and paid off the loan balance.

Below Market Rate Assessment Loans

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

Oak Manor Townhouse Water System

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

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

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

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

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

2811-2825 Alma Street Acquisition
On October 9, 2011, the City agreed to loan $1.3 million to PAHC to acquire properties on Alma Street for the purpose of developing an affordable rental housing project. On June 29, 2015, the City loaned PAHC an additional $0.6 million, and entered into an Amended and Restated Acquisition and Development Agreement which combined the two loans for a total loan of $1.9 million. The loan term expires on December 8, 2066 with an option to extend the term for an additional 44 years. The loan bears simple interest of 3 percent, however in the event of default interest will accrue at the lesser of 8 percent or the highest rate permitted by law. Principal and interest payments are payable during the term of the agreement on a “residual receipt” basis as described in the agreement. All principal and interest is due in the event of an unauthorized transfer, a default or the expiration of the term. As of June 30, 2019, the outstanding balance was $1.9 million.

Palo Alto Family Housing, 801 Alma Street
On February 14, 2011, the City agreed to loan Palo Alto Family, LP up to $9.3 million for the purposes of predevelopment expenses and acquiring certain real property for the Alma Street Affordable Multi-Family Rental Housing Project. The loan bears simple interest of 3 percent. Principal and interest are due and payable during the term of the agreement on a “residual receipt” basis as described in the agreement. Except in the case of default, all remaining principal and interest shall be payable on the Restriction Termination Date as defined in the agreement. As of June 30, 2019, the outstanding amount is $6.4 million.

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Palo Alto Senior Housing Project

On October 1, 2015, the City entered into an affordable housing fund loan agreement with PASHPI Stevenson House LP, a California limited partnership, in the principal amount of $1 million to assist in the rehabilitation of the Stevenson House. The loan bears simple interest of 3 percent. As of June 30, 2019, the loan outstanding balance is $901,000 and is due at the end of the 55-year term.

MP Palo Alto Garden, LLC

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

Colorado Park Housing Corporation

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

Buena Vista Mobile Home Park – Santa Clara County

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

NOTE 6 – CAPITAL ASSETS

Valuation

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

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

NOTE 6 – CAPITAL ASSETS (Continued)

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

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

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

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

NOTE 6 – CAPITAL ASSETS (Continued)

General Capital Assets

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

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

NOTE 6 – CAPITAL ASSETS (Continued)

Business-type Capital Assets

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

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

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.

NOTE 6 – CAPITAL ASSETS (Continued)

Depreciation Allocation

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

Governmental Activities			*Business-type Activities*		
City Manager	$	19	Water	$	2,832
City Attorney		1	Electric		8,271
City Clerk		4	Fiber Optics		377
City Auditor		1	Gas		3,241
Administrative Services		4	Wastewater Collection		2,209
Community Services		3,202	Wastewater Treatment		2,868
Public Safety		346	Refuse		116
Public Works		10,557	Storm Drainage		928
Planning and Community Environment		331	Airport		21
Library		2,371		$	20,863
Internal Service Funds		3,500			
	$	20,336			

NOTE 6 – CAPITAL ASSETS (Continued)

Construction In Progress

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

Governmental Activities	Expended to June 30, 2019
Charleston/Arastradero Corridor	$ 9,180
Bicycle Boulevards Implementation Project	9,055
New California Ave Area Parking Garage	8,843
Fire Station No. 3 Replacement Design	8,365
Lucie Stern Buildings Mech/Electrical Improvements	6,354
Highway 101 Pedestrian/Bicycle Overpass	5,243
New Public Safety Building	5,241
Traffic Signal Upgrades	4,456
Transportation and Parking Improvements	2,662
Baylands Interpretive Center & Boardwalk Improvement	2,283
Rinconada Park Improvement	2,270
Railroad Grade Separation	2,132
Downtown Mobility & Safety Improvements	1,985
Safe Routes To School	1,736
Telephone Infrastructure and Network	1,617
Curb & Gutter Repairs	1,562
CalTrain Corridor Video Management System Installation	1,516
Cubberley Roof Replacement	1,481
New Downtown Parking Garage	1,434
Benches/Signage/Fencing/Walkways	1,340
Newell Road Bridge/SFC Bridge Replacement	1,286
Quarry Road	1,282
Parks Master Plan	1,254
Roofing Replacement	1,082
Baylands Interpretive Center Improvements	1,078
City Facility Parking Lot Maintenance	1,067
JMZ Renovation	1,060
VRF	913
Embarcadero Corridor Improvements	872
Residential Preferential Parking	838
Parks & Open Space Emergency Repairs	813
Street Lights Improvements	721
Other Construction In Progress	15,974
Total Governmental Activities Construction In Progress	$ 106,995

Business-type Activities	Expended to June 30, 2019
Water system extension replacements and improvements	$ 20,551
Sewer system rehabilitation and extensions	15,982
Gas system extension replacements and improvements	13,520
Storm drainage structural and water quality improvements	11,341
Electric distribution system improvements	11,153
Water quality control plant equipment replacement and lab facilities	1,682
Fiber optic system improvements	1,592
Other construction in progress	82,165
Total Business-type Activities Construction In Progress	$ 157,986

NOTE 6 – CAPITAL ASSETS (Continued)

Construction In Progress

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

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

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

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

- Water Main Replacement for Water fund - $7.1 million
- Wastewater Collection Fund Rehabilitation/Augmentation - $4.6 million
- Airport Apron Reconstruction Project - $7.7 million

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

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

NOTE 7 – LONG-TERM DEBT

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

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

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

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

NOTE 7 – LONG-TERM DEBT (Continued)

Description of Long-Term Debt Issues

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

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

2013A General Obligation Bonds (2013A GO Bonds) – On June 30, 2013, the City issued $20.7 million of 2013A GO Bonds to finance costs for constructing a new Mitchell Park Library and Community Center, as well as making substantial improvements to the Rinconada Library and the Downtown Library. Principal payments are due annually on August 1 and interest payments semi-annually on February 1 and August 1 from 2 percent to 5 percent, and are payable from property tax revenues. The TIC is 3.85 percent.

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

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

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

NOTE 7 – LONG-TERM DEBT (Continued)

2019 California Avenue Parking Garage Series A and B Certificates of Participation (2019A and 2009B COPs) – On March 21, 2019, the City issued tax exempt 2019A COPs of $26.8 million and taxable 2019B COPs of $10.6 million for the construction of the California Avenue Parking Garage. There are two semi-annual debt service payments, consisting of principal payments due annually on November 1 and interest payments due on May 1 and November 1. The debt service is payable solely from and secured by the lease payments to be made by the City's General Fund to the Public Improvement Corporation pursuant to the Lease Agreement. The leased property is the Rinconada Library and after construction and the substantial readiness of the California Avenue Parking Garage project, the garage will become the leased property. The maturity dates and TIC for 2019A COPs are November 2044 and 3.51 percent, respectively, and 2019B COPs are November 2048 and 4.32 percent, respectively, with a combined rate of 3.75 percent. The reserve account requirement was waived due to the City being a highly rated bond issuer.

Direct Borrowing - 2011 Lease-Purchase Agreement – On August 2, 2011, the City entered into a master lease-purchase direct private placement agreement with JP Morgan Chase Bank, N.A. to finance redemption of the 1998 Golf Course COPs. The lease is secured by a first priority security interest in twenty-one Fire Department emergency vehicles. Lease proceeds were $3.2 million. Principal payments are due annually on September 1 and interest payments are due semi-annually on September 1 and March 1 at a rate of 2.49 percent, payable from General Fund revenues. As of June 30, 2019, all principal and interest payments for the lease-purchase agreement have been made by the City and the outstanding balance is $0.

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

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

NOTE 7 – LONG-TERM DEBT (Continued)

The pledge of future Net Revenues for the above bonds ends upon repayment of the $0.6 million principal and $0.1 million interest as the remaining debt service on the bonds, which is scheduled to occur in FY 2020. For FY 2019, Net Revenues, including operating revenues and non-operating interest earnings, amounted to $316.1 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to $227.8 million. Net Revenues available for debt service amounted to $88.3 million, which represented coverage of 129.3 times over the $0.7 million in debt service.

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

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

As required by the Indenture, the City established a Reserve Account with a Reserve Requirement. At the time it issued the Bonds, the City satisfied the Reserve Requirement with a deposit into the Reserve Account of a Surety Bond in the amount of $1,647,300 issued by Ambac Indemnity Corporation (renamed to Ambac Assurance Corporation in 1997).

The pledge of future Net Revenues for the above bonds ends upon repayment of the $7.5 million principal and $1.3 million interest as the remaining debt service on the bonds, which is scheduled to occur in FY 2024. For FY 2019, Net Revenues, including operating revenues and non-operating interest earnings, amounted to $56.5 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to $41.9 million. Net Revenues available for debt service amounted to $14.6 million, which represents coverage of 12.1 times over the $1.2 million in debt service.

NOTE 7 – LONG-TERM DEBT (Continued)

2009 Water Revenue Bonds, Series A – On October 6, 2009, the City issued $35.0 million of Water Revenue Bonds to finance certain improvements to the City's water utility system. Principal payments are due annually on June 1, and interest payments are due semi-annually on June 1 and December 1 from 1.80 percent to 5.95 percent. The 2009 Revenue Bonds are secured by net revenues generated by the Water Services Fund. The 2009 Bonds were issued as bonds designated as "Direct Payment Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009 ("Build America Bonds"). The City expects to receive a cash subsidy payment from the United States Treasury equal to 35 percent of the interest payable on the 2009 Bonds. The lien of the 1995 Bonds on the Net Revenues is senior to the lien on Net Revenues securing the 2009 Bonds and the 2011 Bonds. The City received subsidy payments amounting to $488 thousand, which represents 32.8 percent of the interest payments due on December 1 and June 1.

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

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

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

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

NOTE 7 –LONG-TERM DEBT (Continued)

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

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

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

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

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

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

NOTE 7 – LONG-TERM DEBT (Continued)

Debt Service Requirements (in thousands):

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

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

Debt Call Provisions

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

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

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

(2) Callable in any order specified by the City at par value plus any accrued interest beginning on the initial call date.

Leasing Arrangements

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

NOTE 7 – LONG-TERM DEBT (Continued)

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

Events of Default and Acceleration Clauses

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

NOTE 8 – SPECIAL ASSESSMENT DEBT

Special Assessment Debt with no City Commitment

On February 29, 2012, the University Avenue Area Off-Street Parking Assessment District issued Limited Obligation Refunding Improvement Bonds (2012 Bonds), but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on properties in this District. Therefore, this debt is not included in Governmental Activities long-term debt of the City. At June 30, 2019, the District's outstanding debt amounted to $20.9 million. The proceeds from the 2012 Bonds, combined with available Assessment Funds, were used to redeem the outstanding University Avenue Area Off-Street Parking Assessment District Series 2001-A and Series 2002-A Bonds. On June 28, 2016, the District defeased $1.6 million of the 2012 Bonds using funds remaining from completion of the project. The defeased debt will be paid on September 2, 2022. The TIC is 3.97 percent.

NOTE 9 – LANDFILL POST-CLOSURE MAINTENANCE

The 126 acre Palo Alto Refuse Disposal Site (Palo Alto Landfill) was filled to capacity and stopped accepting waste in July 2011. State and federal laws and regulations require the City to construct a final cover to cap the waste, and to perform certain post-closure maintenance and monitoring activities at the site for a minimum of thirty years after closure. As of November 2015, the Palo Alto Landfill has been fully capped and subsequently converted to a pastoral park (Byxbee Park) that is open to the public. A final post-closure maintenance plan and cost estimate for the thirty year post-closure related activities was approved by state and local regulatory agencies in 2014. This cost estimate is adjusted annually for inflation at a percentage provided by the State. Landfill post-closure liabilities as of June 30, 2019 are $7.0 million, an increase of $0.2 million from the previous year. The City is required by state and federal laws and regulations to fund post-closure maintenance activities by pledging future revenue received from Refuse customers through rate fees.

NOTE 10 – NET POSITION AND FUND BALANCES

Net Position

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

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

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

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

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

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

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

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

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

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

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

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

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

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

As of June 30, 2019 total outstanding encumbrances and reappropriations related to governmental activities were $6.5 million for the General Fund, $79.4 million for the Capital Projects Fund, and $13.6 million for the Special Revenue Funds. General Fund encumbrances and reappropriations are reserved for the following governmental activities: Planning & Community Environment $1.7 million, City Manager $0.6 million, Development Services $0.4 million, Public Works $0.8 million, Community Services $1.2 million, Police $0.3 million, Non-Departmental $0.4 million and the remaining City departments $1.1 million.

Enterprise Funds

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

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

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

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

Internal Service Funds

At June 30, 2019, Internal Service Funds unrestricted net position (in thousands) were as follows:

	Vehicle 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	$ 1,706	$ 2,871	$ 108	$ 546	$ 10	$ 34	$ -	$ 5,275
Future catastrophic losses	-	-	-	-	489	285	-	774
Retiree health care	-	-	-	-	-	-	1,150	1,150
Capital projects	2,594	3,101	-	-	-	-	-	5,695
GASB68 pension reserve	(3,213)	(10,578)	(286)	-	(28)	-	-	(14,105)
PARS supplemental pension reserve	-	-	-	14,030	-	-	-	14,030
GASB75 OPEB reserve	(1,655)	(3,377)	(148)	-	-	-	-	(5,180)
Available	6,233	19,725	(116)	2,543	-	-	-	28,385
Total	$ 5,665	$ 11,742	$ (442)	$ 17,119	$ 471	$ 319	$ 1,150	$ 36,024

- **Commitments** represent the portion of net position set aside for open purchase orders.
- **Future catastrophic losses** represent the portion of net position to be used for unforeseen future losses.
- **Retiree health care** represents the portion of net position set aside to defer future costs of retiree health care coverage.
- **Capital projects** represent the portion of net position set aside for adopted capital projects.
- **GASB68 pension reserve** is the portion of net position required to be set aside to meet defined benefit pension obligations.
- **PARS supplemental pension reserve** represents Section 115 irrevocable trust with the PARS to prefund pension obligations.
- **GASB75 OPEB reserve** is the portion of net position required to be set aside to meet OPEB obligations.

Funds with deficits:

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

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

NOTE 11 – PENSION PLANS

(a) General Information about the Pension Plans

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

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

The Plans' provisions and benefits in effect at June 30, 2019, are summarized in the following table. Contribution rates are based on the Actuarial Valuation Report as of June 30, 2016.

	Safety Plan			
	Fire Fighters, Fire Chief Association, Police Officers,	Fire Fighters, Fire Chief Association	Police Officers, Police Management	Fire Fighters, Fire Chief Association, Police Officers,
Hire Date	Prior to June 8, 2012	On or after June 8, 2012	On or after Dec. 8, 2012	On or after Jan 1, 2013
Benefit formula[1]	3% at 55	3% at 55	3% at 50	2.7% at 57
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50	55[1]	55[1]	57[1]
Monthly benefit as % of eligible compensatio	3%	3%	3%	2.7%
Actuarially determined contribution rate - EE	9%	9%	9%	11.25%
Actuarially determined contribution rate - ER	55.633%	55.633%	55.633%	55.633%

	Miscellaneous Plan		
Hire Date	Prior to July 17, 2010	On or after July 17, 2010	On or after Jan 1, 2013
Benefit formula	2.7% at 55[2]	2% at 60[2]	2% at 62[3]
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	55[2]	60[2]	62[3]
Monthly benefit as % of eligible compensatio	2.70%	2.0% - 2.418%	2%
Actuarially determined contribution rate - EE	8%	7%	6.25%
Actuarially determined contribution rate - ER	32.556%	32.556%	32.556%

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

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

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

NOTE 11 – PENSION PLANS (Continued)

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

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

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

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

In April 2017, the City established a Section 115 irrevocable trust with the Public Agency Retirement Services (PARS). The Council approved an initial deposit of $2.1 million in General Fund proceeds into the General Fund subaccount of the City's PARS Trust Account. The Trust Account allows more control and flexibility in investment allocations compared to City's portfolio which is restricted by State regulations to fixed income instruments. The City proactively contributes to the Section 115 irrevocable trust amounts reflective of what retirement costs would be if the normal cost of contributions was budgeted at a 6.2% discount rate. As of June 30, 2019, the City reported the account balance of $14.0 million as restricted cash in the General Benefits, an Internal Service Fund.

(b) Net Pension Liability

The City's net pension liability for both Plans is measured as the total pension liability, less the plan's fiduciary net position. Net pension liability is measured as of June 30, 2018 (measurement date), using the Actuarial Valuation Report as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. At June 30, 2019, the City reported a net pension liability of $423.9 million for both plans. A summary of principal assumptions and methods used to determine the net pension liability is as follows:

NOTE 11 – PENSION PLANS (Continued)

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

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

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

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

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

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

NOTE 11 – PENSION PLANS (Continued)

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound geometric returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated and adjusted to account for assumed administrative expenses.

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

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

[1] An expected inflation of 2.00% used for this period.
[2] An expected inflation of 2.92% used for this period.

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

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%)
Miscellaneous Plan:			
Plan's Net Pension Liability/(Asset)	$ 368,520	$ 264,661	$ 178,315
Safety Plan:			
Plan's Net Pension Liability/(Asset)	$ 215,925	$ 159,235	$ 112,413

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

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

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

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

NOTE 11 – PENSION PLANS (Continued)

The $37.7 million reported as deferred outflows of resources relates to contributions paid by the City from July 1, 2018 through June 30, 2019 which is subsequent to the City's measurement date of June 30, 2018 for both the Miscellaneous and Safety Plans. This amount will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

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

Year Ended June 30,	Miscellaneous Plan	Safety Plan	Total
2020	$ 16,875	$ 13,253	$ 30,128
2021	692	3,637	4,329
2022	(5,539)	(2,915)	(8,454)
2023	(1,501)	(792)	(2,293)
	$ 10,527	$ 13,183	$ 23,710

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

[1] 100% of benefits if the employee has five years CalPERS service credit and the employee retired from the City.
[2] Effective 1/1/2007 plan capped at the second highest CalPERS Bay Area Basic plan premium.
[3] Effective 7/1/2014 plan capped at the second highest CalPERS Bay Area Basic plan premium.
[4] Effective 1/1/2017 City pays $773 for employee, $1,544 for employee +1, $2,008 for family. Effective 1/1/2018 City pays $804 for employee, $1,606 for employee +1, $2,088 for family.

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

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

[1] Employees with ten years of CalPERS service, at least five of which are at the City of Palo Alto, receive 50% of the specified employer contribution, with the City portion increasing by 5% for each additional year of service credit.
[2] The City will contribute an additional 90 percent of the weighted average of the additional premiums required for enrollment of those family members, during the benefit year to which the forumla is applied.

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

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

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

Inactive employees or beneficiaries currently receiving benefits	921
Inactive employees entitled to but not yet receiving benefits	113
Active employees	967
Total	2,001

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

(b) Net OPEB Liability

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

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

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

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

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

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

(a) Assumed long-term rate of inflation of 2.75%
(b) Expected long-term net rate of return, rounded of 6.75%

(c) Changes in the Net OPEB Liability

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

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

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%)
$ 181,724	$ 147,820	$ 119,906

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

Healthcare Trend Rate - 1%	Healthcare Trend Current Rate	Healthcare Trend Rate + 1%
$ 115,526	$ 147,820	$ 187,522

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

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

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

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

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

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

Fiscal Year Ending June 30,		
2020	$	(841)
2021		(841)
2022		(841)
2023		(214)
Total	$	(2,737)

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.

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

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

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

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

During the year ended June 30, 2019, the City paid $1.2 million to ACCEL for current year coverage.

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

Claims Liability

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

NOTE 14 – RISK MANAGEMENT (Continued)

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

	Year Ended June 30	
	2019	2018
Beginning balance	$ 23,748	$ 22,470
Claims expense, including claims incurred but not reported (IBNR)	8,998	4,705
Claims paid	(4,381)	(3,427)
Ending balance	$ 28,365	$ 23,748
Current portion	$ 6,171	$ 5,835

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

NOTE 15 – JOINT VENTURES

General

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

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

Northern California Power Agency

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

NOTE 15 – JOINT VENTURES (Continued)

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

The City's interest in NCPA projects and reserves, as computed by NCPA, was $10.4 million at June 30, 2019. This amount represents the City's portion of funds, which resulted from the settlement with third parties of issues with financial consequences and reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employees' post-retirement medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion, which will require funding to cover debt service and operational costs in excess of the expected value of the electric power. The General Operating Reserve (GOR) is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. There are no funds on deposit with NCPA as a reserve against these contingencies identified by NCPA.

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

Geothermal Projects

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

The City's participation in the Geothermal Project was sold to Turlock Irrigation District in October 1984. Accordingly, the City is liable for payment of outstanding geothermal related debt only in the event that Turlock fails to make specified payments. Total outstanding debt of the NCPA Geothermal Project at June 30, 2019 is $133.5 million. The City's participation in this project was 6.2 percent, or $8.3 million.

Calaveras Hydroelectric Project

In July 1981, NCPA agreed with Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments to NCPA began in February 1990 when the project was declared substantially complete and power was delivered to the participants. Under its power purchase agreement with NCPA, the City is obligated to pay 22.9 percent of this Project's debt service and operating costs. At June 30, 2019, the book value of this Project's plant, equipment and other assets was $349 million, while its long-term debt totaled $282 million and other liabilities totaled $52.9 million. The City's share of the Project's long-term debt amounted to $67.9 million at that date.

NOTE 15 – JOINT VENTURES (Continued)

Geothermal Public Power Line

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

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

At June 30, 2019, the book value of this Project's plant, equipment and other assets was zero, and its long-term debt totaled zero.

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

Transmission Agency of Northern California (TANC)

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

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

NOTE 15 – JOINT VENTURES (Continued)

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

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

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

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Palo Alto Unified School District – The City leases 27 acres of the former Cubberley School site and twelve extended day care sites from Palo Alto Unified School District (PAUSD). The lease includes a mechanism for a joint planning process between the City and PAUSD to develop a long-term master plan for the Cubberley site. The City will pay $1.86 million annually into a separate fund to be used for repairing, renovating and/or improving the infrastructure at the Cubberley site. The previous lease term expired on December 31, 2014, and the City and PAUSD reached an agreement to extend the lease agreement for an additional five (5) years, with a new expiration date of December 31, 2019. The City and PAUSD also agreed to distribute gains or losses of revenue that resulted from the Foothill College departure from Cubberley. The City's rent and infrastructure payment for the facilities is $7.3 million per year plus insurance, repairs and maintenance. Lease expenditures for the year ended June 30, 2019 amounted to $7.6 million. Future minimum annual lease and infrastructure payments are as follows (in thousands):

Year Ending June 30	Payment
2020	3,845

NOTE 16 – COMMITMENTS AND CONTINGENCIES (Continued)

GreenWaste of Palo Alto – GreenWaste of Palo Alto is the City's contractor for waste collection, transportation, and processing services. The agreement expires June 30, 2021. The base compensation for GreenWaste is adjusted annually based on CPI indicators stipulated in the contract. In FY 2019 payments to GreenWaste were $9.9 million.

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

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

In FY 2008, the members agreed to finance an Equipment Replacement Project from existing reserves and proceeds from the Solid Waste Revenue Bond, Series 2007. The City has committed to repay 27.8 percent of the remaining debt service on the Bonds. The City's portion of the Bonds amounts to $0.4 million as of June 30, 2019. During the year ended June 30, 2019, the City paid $0.2 million as its portion of current debt service.

NOTE 16 – COMMITMENTS AND CONTINGENCIES (Continued)

UTILITIES ENERGY RESOURCE MANAGEMENT

Electric Power Supply Purchase Agreements – The City has numerous power purchase agreements with power producers to purchase capacity and energy to supply a portion of its load requirements. As of June 30, 2019, the approximate minimum obligations for the contracts, assuming the energy is delivered over the next five years, are as follows:

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

Contractual Commitments beyond 2022 (Electricity) – Several of the City's purchase power and transmission contracts extend beyond the five-year summary presented above. These contracts expire between 2026 and 2051 and provide for power under various terms and conditions. The City also has a new solar power purchase agreement that is schedule to start in January 2023. The City estimates that its annual minimum commitments under all of its contracts, assuming the energy is delivered, ranges between $62.41 million in 2024 and $51.63 million in 2034. The City's largest single purchase power source is the Western Base Resource contract, whereby the City receives 12.31 percent of the amount of energy made available by Western, after meeting Central Valley Project use requirements, in any given year at a 12.31 percent share of their revenue requirement. The Western contract expires on December 31, 2024. The City expects to have the option to extend the Western contract for an additional 30-year period beyond 2024, although at a slightly lower share of the total energy output and revenue requirement (12.06 percent instead of 12.31 percent).

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

San Francisco Public Utilities Commission – The City purchases water to deliver to the customers of its water utility from the San Francisco Public Utilities Commission (SFPUC) under a contract terminating in 2034. The City's wholesale water rate under this contract is determined by a ratemaking process under the authority of the SFPUC, with contractual limitations on the types of costs that may be allocated to wholesale water purchasers like the City. The City is prohibited from purchasing from other water suppliers under this contract, though it is not prohibited from using ground water or developing other local water supplies such as recycled water. The City's cost of water under this contract is projected to remain flat through 2022.

NOTE 16 – COMMITMENTS AND CONTINGENCIES (Continued)

Litigation

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

A class action lawsuit for refund of telephone users tax was filed against the City in August 2015. The City Attorney is of the opinion that a loss is reasonably possible but cannot be reasonably estimated at this time.

A class action lawsuit for refund of allegedly illegal charges to gas and electrical customers was filed against the City in October 2016. At this time, the City Attorney is of the opinion that the loss is not probable and any potential loss cannot be reasonably estimated at this time.

Grant Programs

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

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

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

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

Notes to Schedule:

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

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

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

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

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

Notes to Schedule:

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

ADC for fiscal year	June 30, 2019
Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry-Age Normal Cost Method
Asset valuation method	Actuarial value of assets
Inflation	2.75%
Salary increases	Varies by entry age and services
Payroll growth	3.00%
Investment rate of return	7.375%, net of pension plan investment and administrative expenses, includes inflation.
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

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

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

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

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

Notes to Schedule:

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

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

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

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

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

Notes to Schedule:

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

ADC for fiscal year	June 30, 2019
Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry-Age Normal Cost Method
Asset valuation method	Actuarial value of assets
Inflation	2.75%
Salary increases	Varies by entry age and services
Payroll growth	3.00%
Investment rate of return	7.375%, net of pension plan investment and administrative expenses, includes inflation.
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

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

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

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

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

Notes to Schedule:

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

Changes in assumptions - There were no changes in assumptions

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

VI. SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS (In thousands)

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

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

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

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

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

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

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

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

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NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CITY OF PALO ALTO
Non-major Special Revenue Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2019
(Amounts in thousands)

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

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

CITY OF PALO ALTO
Non-major Special Revenue Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2019
(Amounts in Thousands)

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

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

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NON-MAJOR GOVERNMENTAL FUNDS

DEBT SERVICE FUNDS

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

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

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

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

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

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

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

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

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

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

NON-MAJOR GOVERNMENTAL FUNDS

PERMANENT FUND

Eyerly Family

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

CITY OF PALO ALTO
Non-major Permanent Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual
For the Year Ended June 30, 2019
(Amounts in thousands)

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

INTERNAL SERVICE FUNDS

INTRODUCTION

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

Vehicle Replacement and Maintenance

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

Technology

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

Printing and Mailing Services

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

General Benefits

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

Workers' Compensation Insurance Program

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

General Liabilities Insurance Program

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

Retiree Health Benefits

This fund accounts for the retiree health benefits contributions.

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

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

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

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

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

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

FIDUCIARY FUNDS

INTRODUCTION

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

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

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

Cable Joint Powers Authority

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

University Avenue Area Off-Street Parking Assessment District

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

CITY OF PALO ALTO
All Agency Funds
Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2019
(Amounts in thousands)

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Cable Joint Powers Authority				
ASSETS:				
Cash and investments available for operations	$ 549	$ 190	$ -	$ 739
Accounts receivable	515	-	18	497
Interest receivable	3	1	-	4
Total assets	$ 1,067	$ 191	$ 18	$ 1,240
LIABILITIES:				
Due to other governments	$ 1,067	$ 173	$ -	$ 1,240
University Avenue Area Off-Street Parking Assessment District				
ASSETS:				
Cash and investments available for operations	$ 1,973	$ 55	$ -	$ 2,028
Cash and investments with fiscal agents	2,594	63	-	2,657
Accounts receivable	17	-	6	11
Interest receivable	11	2	-	13
Total assets	$ 4,595	$ 120	$ 6	$ 4,709
LIABILITIES:				
Due to bondholders	$ 4,595	$ 114	$ -	$ 4,709
Total Agency Funds				
ASSETS:				
Cash and investments available for operations	$ 2,522	$ 245	$ -	$ 2,767
Cash and investments with fiscal agents	2,594	63	-	2,657
Accounts receivable	532	-	24	508
Interest receivable	14	3	-	17
Total assets	$ 5,662	$ 311	$ 24	$ 5,949
LIABILITIES:				
Due to bondholders	$ 4,595	$ 114	$ -	$ 4,709
Due to other governments	1,067	173	-	1,240
Total liabilities	$ 5,662	$ 287	$ -	$ 5,949

STATISTICAL SECTION

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

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

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

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

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

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

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

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

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

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

STATISTICAL SECTION

Demographic and Economic Information

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

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

Operating Information

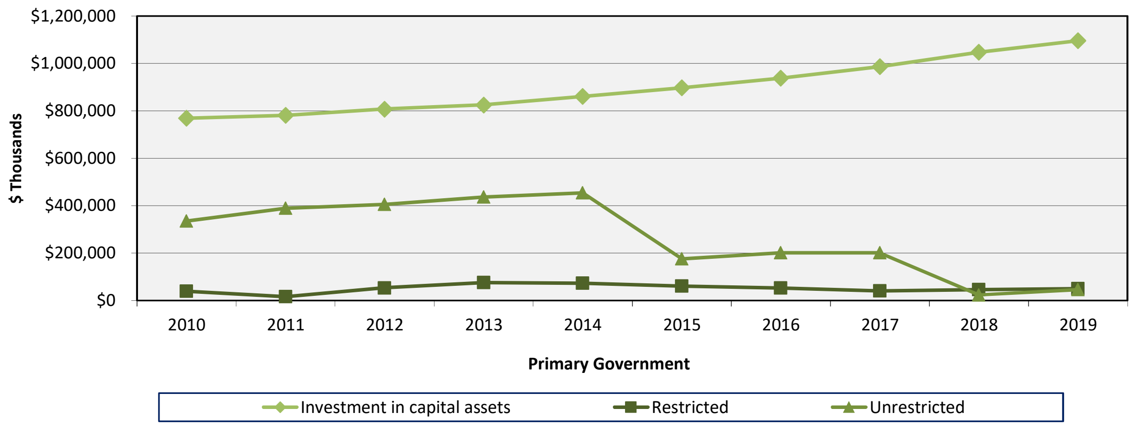
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

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

Sources

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

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



	Fiscal Year Ended June 30									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Governmental Activities										
Investment in capital assets	$ 369,499	$ 364,747	$ 370,111	$ 378,047	$ 386,696	$ 405,921	$ 425,179	$ 453,878	$ 473,233	$ 493,706
Restricted	34,323	16,437	52,934	71,717	68,331	55,963	47,907	36,081	41,177	45,639
Unrestricted	102,199	134,722	142,102	165,810	187,386	1,972	37,905	37,330	(87,040)	(89,362)
Total Governmental Activities Net Position	$ 506,021	$ 515,906	$ 565,147	$ 615,574	$ 642,413	$ 463,856	$ 510,991	$ 527,289	$ 427,370	$ 449,983
Business-type Activities										
Investment in capital assets	$ 399,317	$ 416,418	$ 437,151	$ 446,597	$ 473,795	$ 490,874	$ 512,918	$ 532,063	$ 573,688	$ 602,136
Restricted	4,300	-	-	4,060	4,166	4,142	4,115	4,073	4,014	4,016
Unrestricted	232,420	253,740	262,602	269,926	266,794	172,802	162,806	163,158	110,429	135,391
Total Business-type Activities Net Position	$ 636,037	$ 670,158	$ 699,753	$ 720,583	$ 744,755	$ 667,818	$ 679,839	$ 699,294	$ 688,131	$ 741,543
Primary Government										
Investment in capital assets	$ 768,816	$ 781,165	$ 807,262	$ 824,644	$ 860,491	$ 896,795	$ 938,097	$ 985,941	$ 1,046,921	$ 1,095,842
Restricted	38,623	16,437	52,934	75,777	72,497	60,105	52,022	40,154	45,191	49,655
Unrestricted	334,619	388,462	404,704	435,736	454,180	174,774	200,711	200,488	23,389	46,029
Total Primary Government Net Position	$ 1,142,058	$ 1,186,064	$ 1,264,900	$ 1,336,157	$ 1,387,168	$ 1,131,674	$ 1,190,830	$ 1,226,583	$ 1,115,501	$ 1,191,526

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)

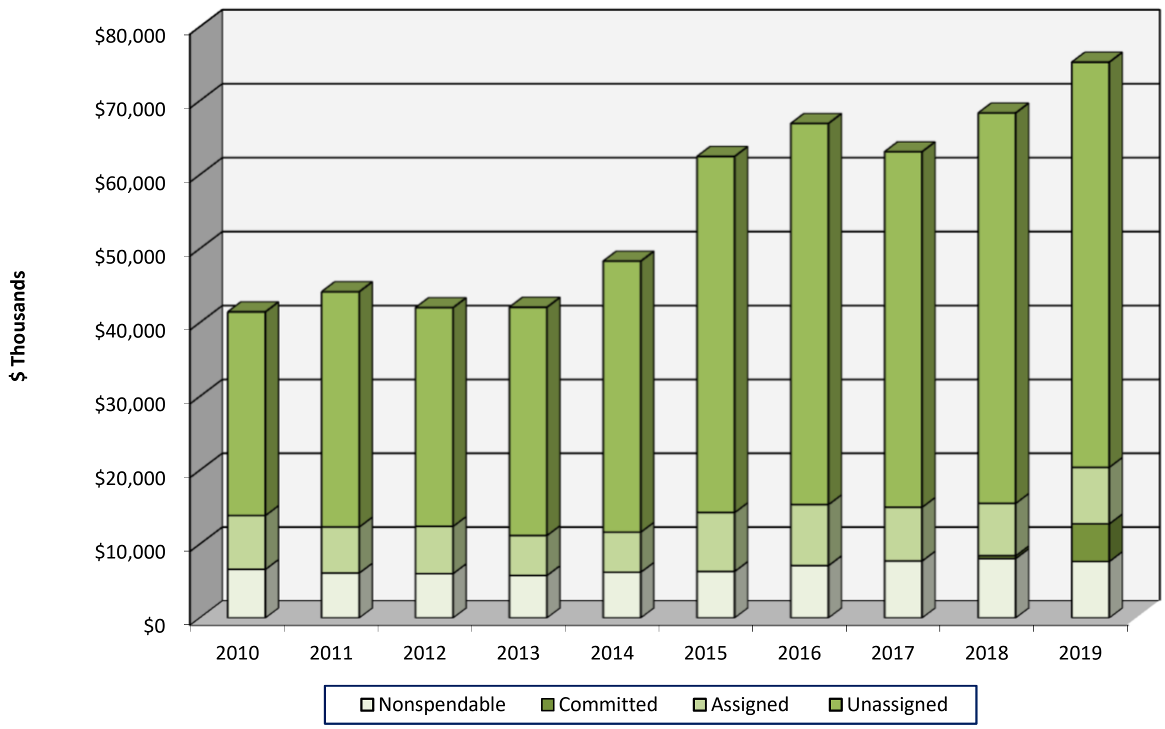
	Fiscal Year Ended June 30									
PROGRAM REVENUES	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Governmental Activities										
Charges for services										
City Attorney	$ 53	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Administrative Services	984	2,889	1,647	15,629	4,055	5,460	9,444	5,242	6,536	6,413
Public Works	1,258	2,419	1,008	1,314	1,093	1,209	599	878	781	1,478
Planning & Community Environment	4,813	7,237	31,491	28,768	12,896	8,090	9,071	6,067	5,119	11,997
Development Services[1]	-	-	-	-	-	12,019	12,570	11,768	16,000	13,904
Public Safety	14,337	15,274	15,658	16,139	14,902	15,726	13,945	12,670	13,507	14,179
Community Services	8,729	7,724	11,365	13,808	20,882	20,912	21,551	20,472	21,285	22,805
Library	199	480	1,600	187	166	137	198	139	145	134
Operating grants and contributions	4,829	2,884	3,441	5,038	5,360	5,300	2,164	1,990	14,054	2,100
Capital grants and contributions	1,280	1,903	1,064	515	917	619	344	1,929	1,534	8,247
Total Governmental Activities Program Revenues	36,482	40,810	67,274	81,398	60,271	69,472	69,886	61,155	78,961	81,257
Business-type Activities										
Charges for services										
Water	26,259	26,624	31,467	37,746	40,291	35,847	37,588	42,678	45,087	45,571
Electric	121,900	122,109	118,886	121,805	121,916	120,842	120,743	137,543	154,142	163,514
Fiber Optics	3,105	3,322	3,662	4,382	4,485	4,627	4,505	4,553	4,529	4,657
Gas	44,450	43,584	41,774	34,633	35,737	30,751	30,212	36,431	37,044	42,113
Wastewater Collection	15,136	15,094	14,942	16,077	15,599	16,182	16,496	17,748	17,990	20,219
Wastewater Treatment	16,915	18,830	22,200	21,528	18,460	24,120	23,825	23,649	27,382	27,573
Refuse	28,568	30,469	30,645	30,583	30,297	31,576	32,169	33,918	34,647	33,996
Storm Drainage	5,647	5,796	5,892	6,053	6,183	6,281	6,520	6,693	6,964	7,249
Airport	-	-	-	-	-	683	826	1,286	2,382	2,483
Operating grants and contributions	361	610	605	572	549	534	744	512	501	488
Capital grants and contributions	475	3,004	1,526	2,224	2,005	2,080	1,061	4,265	14,194	6,677
Total Business-type Activities Program Revenues	262,816	269,442	271,599	275,603	275,522	273,523	274,689	309,276	344,862	354,540
Total Primary Government Program Revenues	$ 299,298	$ 310,252	$ 338,873	$ 357,001	$ 335,793	$ 342,995	$ 344,575	$ 370,431	$ 423,823	$ 435,797
EXPENSES										
Governmental Activities										
City Council	$ 455	$ 15	$ 345	$ 94	$ 387	$ 271	$ 352	$ 329	$ 345	$ 270
City Manager	2,399	1,842	1,960	1,237	2,180	2,155	2,662	1,975	2,757	3,336
City Attorney	2,621	953	1,656	1,642	1,797	1,759	2,472	2,140	2,511	3,086
City Clerk	1,369	803	908	330	641	680	582	762	931	822
City Auditor	2,601	138	235	464	489	362	414	847	994	1,081
Administrative Services	17,893	9,888	10,100	7,614	11,388	9,980	10,637	11,887	13,949	19,169
Human Resources	3,707	1,346	1,071	1,420	1,346	1,464	2,224	2,272	2,674	3,021
Public Works	18,658	19,357	14,568	20,816	24,577	21,075	24,613	25,539	30,349	36,617
Planning & Community Environment	12,114	15,031	12,074	13,549	14,926	8,423	10,208	10,918	11,357	12,169
Development Services[1]	-	-	-	-	-	10,449	11,158	11,102	12,664	12,622
Public Safety	55,799	58,996	62,817	59,452	62,883	58,660	56,653	73,320	83,923	89,189
Community Services	17,171	22,845	21,915	22,705	23,822	24,688	28,547	27,866	33,709	36,815
Library	6,143	6,920	7,323	7,319	7,758	7,721	10,825	11,437	12,208	12,557
Interest on long term debt	370	2,742	2,575	2,562	3,367	3,658	3,552	2,846	2,761	3,653
Total Governmental Activities Expenses	141,300	140,876	137,547	139,204	155,561	151,345	164,899	183,240	211,132	234,407
Business-type Activities										
Water	21,037	24,268	29,093	30,707	31,593	33,205	35,120	37,535	40,836	40,606
Electric	107,910	100,130	102,030	106,438	113,004	122,499	120,319	128,603	146,033	139,605
Fiber Optics	1,407	1,561	1,489	1,437	1,661	1,891	2,107	2,159	2,653	2,476
Gas	32,498	32,051	28,878	26,749	26,869	23,525	20,879	26,783	27,930	30,915
Wastewater Collection	10,696	12,275	14,825	14,313	13,235	14,595	15,199	16,405	16,801	17,324
Wastewater Treatment	13,466	19,731	20,712	20,635	21,018	21,553	22,546	23,498	27,518	27,070
Refuse	28,119	30,684	31,900	28,542	28,413	27,974	30,370	30,665	28,808	30,391
Storm Drainage	2,491	3,229	3,103	3,703	3,644	3,721	3,735	4,106	5,059	4,951
Airport	-	31	153	246	466	1,004	970	1,274	1,656	1,790
Total Business-type Activities Expenses	217,624	223,960	232,183	232,770	239,903	249,967	251,245	271,028	297,294	295,128
Total Primary Government Expenses	$ 358,924	$ 364,836	$ 369,730	$ 371,974	$ 395,464	$ 401,312	$ 416,144	$ 454,268	$ 508,426	$ 529,535

	Fiscal Year Ended June 30									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
NET (EXPENSE)/REVENUE										
Governmental Activities	$ (104,818)	$ (100,066)	$ (70,273)	$ (57,806)	$ (95,290)	$ (81,873)	$ (95,013)	$ (122,085)	$ (132,171)	$ (153,150)
Business-type Activities	45,192	45,482	39,416	42,833	35,619	23,556	23,444	38,248	47,568	59,412
Total Primary Government Net (Expense)/Revenue	$ (59,626)	$ (54,584)	$ (30,857)	$ (14,973)	$ (59,671)	$ (58,317)	$ (71,569)	$ (83,837)	$ (84,603)	$ (93,738)
GENERAL REVENUES AND OTHER CHANGES IN NET POSITION										
Governmental Activities										
Taxes										
Property tax	$ 25,981	$ 29,156	$ 30,104	$ 31,929	$ 35,299	$ 38,750	$ 41,189	$ 43,953	$ 47,170	$ 51,718
Sales tax	17,991	20,746	22,132	25,606	29,424	29,675	30,018	29,923	31,091	36,508
Utility user tax	11,295	10,851	10,834	10,861	11,008	10,861	12,469	14,240	15,414	16,402
Transient occupancy tax	6,858	8,082	9,664	10,794	12,255	16,699	22,366	23,477	24,937	25,649
Other taxes	4,055	8,156	8,173	10,504	9,660	11,867	7,868	8,989	11,337	9,525
Investment earnings	6,514	3,500	6,238	(1,228)	5,859	5,010	8,639	(711)	420	15,375
Miscellaneous	12,729	12,377	14,943	518	2,575	3,428	894	168	1,973	1,906
Transfers	13,994	17,083	17,426	19,249	17,103	16,405	18,705	18,344	19,077	18,680
Total Governmental Activities	99,417	109,951	119,514	108,233	123,183	132,695	142,148	138,383	151,419	175,763
Business-type Activities										
Investment earnings	10,769	5,722	7,605	(2,754)	6,379	4,857	7,282	(449)	596	12,680
Transfers	(13,994)	(17,083)	(17,426)	(19,249)	(17,103)	(16,405)	(18,705)	(18,344)	(19,077)	(18,680)
Total Business-type Activities	(3,225)	(11,361)	(9,821)	(22,003)	(10,724)	(11,548)	(11,423)	(18,793)	(18,481)	(6,000)
Total Primary Government	$ 96,192	$ 98,590	$ 109,693	$ 86,230	$ 112,459	$ 121,147	$ 130,725	$ 119,590	$ 132,938	$ 169,763
CHANGE IN NET POSITION										
Governmental Activities	$ (5,401)	$ 9,885	$ 49,241	$ 50,427	$ 27,893	$ 50,822	$ 47,135	$ 16,298	$ 19,248	$ 22,613
Business-type Activities	41,967	34,121	29,595	20,830	24,895	12,008	12,021	19,455	29,087	53,412
Total Primary Government Change in Net Position	$ 36,566	$ 44,006	$ 78,836	$ 71,257	$ 52,788	$ 62,830	$ 59,156	$ 35,753	$ 48,335	$ 76,025

Notes: [1]The Development Services Department was formed in FY15.

Source: Annual Financial Statements, Statement of Activities

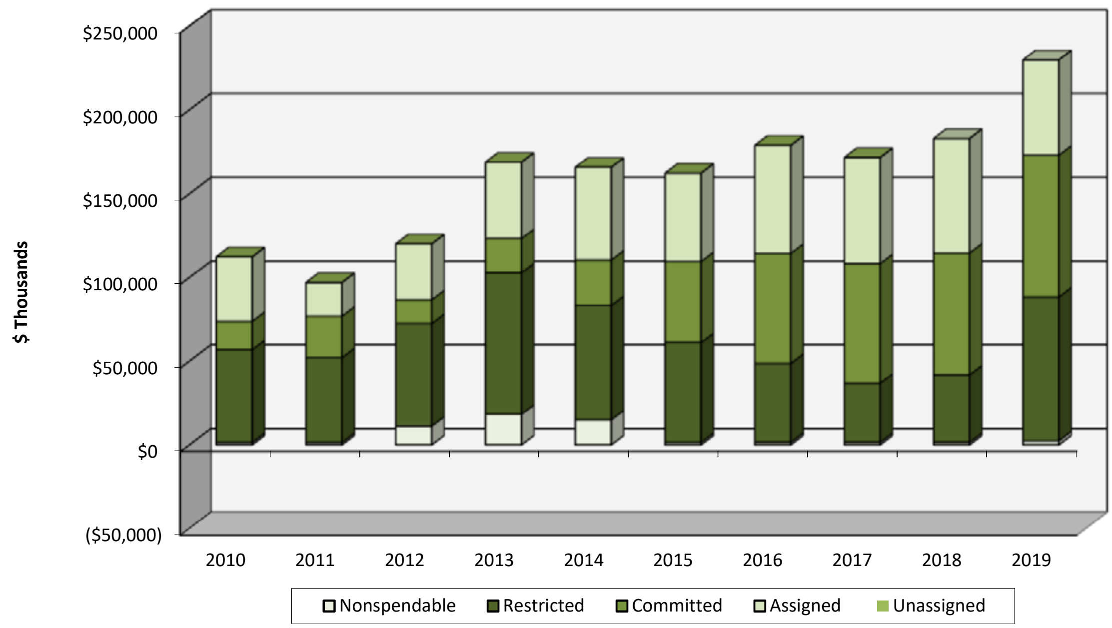
CITY OF PALO ALTO
Fund Balances of Governmental Funds (General Fund)
Last Ten Fiscal Years
(Modified accrual basis of accounting)
(Amounts in thousands)



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

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

Source: Annual Financial Statements, Balance Sheet

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

	Fiscal Year Ended June 30									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues										
Property tax	$ 25,981	$ 29,248	$ 30,216	$ 32,040	$ 35,393	$ 38,836	$ 41,289	$ 44,050	$ 47,242	$ 51,776
Sales tax	17,991	20,746	22,132	25,606	29,424	29,675	30,018	29,923	31,091	36,508
Other taxes and fines	25,063	27,890	29,231	32,141	35,305	41,576	44,909	48,875	53,837	53,525
Contributions[3]	-	-	-	-	-	-	-	-	11,733	-
Charges for services	19,775	22,311	46,273	38,976	23,962	25,973	23,910	22,267	26,835	27,346
From other agencies	3,035	1,614	1,116	4,109	5,700	7,727	4,417	5,443	5,392	4,689
Permits and licenses	4,408	5,433	7,136	8,218	8,990	9,179	11,228	10,523	12,786	17,759
Interest and rentals	19,045	16,553	18,583	12,136	18,445	18,658	22,269	15,348	16,288	32,905
Other revenue	4,724	8,624	12,739	17,570	7,471	12,837	13,827	4,985	6,067	7,955
Total Revenues	120,022	132,419	167,426	170,796	164,690	184,461	191,867	181,414	211,271	232,463
Expenditures										
Administration[1]	17,353	8,351	9,412	8,291	9,961	10,806	11,501	13,192	14,721	15,799
Public Works	9,787	11,317	11,304	11,489	12,439	12,276	13,112	14,485	15,426	14,764
Planning and Community Environment	9,480	10,309	11,966	13,474	14,761	8,628	9,722	10,568	10,332	10,911
Development Services[2]	-	-	-	-	-	11,152	10,643	10,908	11,749	11,549
Public Safety	51,022	58,874	62,418	59,537	62,028	61,447	63,784	71,164	73,916	76,344
Community Services	16,451	20,029	20,860	21,661	22,644	23,553	25,511	25,408	29,831	31,619
Library	5,900	6,509	7,072	6,902	7,340	7,980	7,960	8,953	9,120	9,288
Non-departmental	10,149	7,352	6,819	4,567	8,135	6,180	8,068	6,566	7,579	12,231
Special revenue and capital projects	22,006	35,486	29,154	29,542	37,035	41,754	24,457	39,643	40,971	46,914
Debt service - principal payments	840	870	1,743	1,489	1,524	1,948	7,130	2,066	2,961	2,101
Debt service -interest and fiscal fees	382	1,815	2,757	2,659	3,196	3,404	4,266	3,032	2,956	3,398
Payment to bond refunding escrow	-	-	586	540	-	-	-	-	-	-
Total Expenditures	143,370	160,912	164,091	160,151	179,063	189,128	186,154	205,985	219,562	234,918
Excess (Deficiency) of Revenues Over (Under) Expenditures	(23,348)	(28,493)	3,335	10,645	(14,373)	(4,667)	5,713	(24,571)	(8,291)	(2,455)
Other Financing Sources (Uses)										
Issuance of Debt	-	-	-	-	-	-	-	-	8,970	42,297
Proceeds from sale of capital assets	-	-	-	-	-	-	-	-	-	2,442
Transfers in	34,835	30,323	47,200	50,343	41,683	45,137	61,835	58,331	56,882	54,711
Transfers out	(21,415)	(14,352)	(29,782)	(33,833)	(24,175)	(29,824)	(46,492)	(44,770)	(41,085)	(43,147)
Other	-	(101)	-	-	-	-	-	-	-	-
Proceeds from long term debt	59,071	-	3,222	21,706	-	-	-	-	-	-
Payments to refund bond escrow	-	-	(3,104)	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	72,491	15,870	17,536	38,216	17,508	15,313	15,343	13,561	24,767	56,303
Net Change in Fund Balances	$ 49,143	$ (12,623)	$ 20,871	$ 48,861	$ 3,135	$ 10,646	$ 21,056	$ (11,010)	$ 16,476	$ 53,848
Debt Service as a Percentage of Non-Capital Expenditures	1.0%	2.2%	3.5%	3.2%	3.3%	3.7%	7.1%	3.1%	3.3%	2.8%

Notes:

[1]Comprised of the following departments: City Council, City Manager, City Attorney, City Clerk, City Auditor, Administrative Services and Human Resources.
[2]The Development Services Department was formed in FY15.
[3]Contributions from the Stanford University Medical Center.

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

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

Fiscal Year	Residential	Commercial & Industrial	City of Palo Alto	Total
2010	$ 19,898	$ 89,315	$ 2,890	$ 112,103
2011	19,848	88,076	2,991	110,915
2012	20,328	85,895	3,352	109,575
2013	19,951	86,998	3,265	110,214
2014	18,744	88,419	3,225	110,388
2015	17,404	88,257	3,234	108,895
2016	18,191	86,715	3,127	108,033
2017	20,269	90,635	3,780	114,684
2018	22,764	100,200	4,264	127,228
2019	23,613	103,509	4,404	131,526

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

Top Ten Electric Customers by Revenue[1]

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

[1]The top ten customers accounted for approximately 35.3% of total kWh consumption (311,586,525 kWh) and 31.2% of revenue ($42,456,824). The largest customer accounted for 9.1% of total kWh consumption and 7.8% of revenue. The smallest customer accounted for 1.9% of total kWh consumption and 1.6% of revenue. Revenue used to determine top ten electric customers includes metered and non-metered charges, adjustments, surcharges and discounts. Revenue does not include Utility Users Tax (UUT) and deposits.

	Number of Customers	Kilowatt-hour Sales (kWh)	Revenue[2]
Residential	25,675	150,602,255	$ 23,613
Commercial	3,703	568,750,819	85,332
Industrial	72	133,791,543	18,177
CPA	141	29,258,401	4,404
Total	29,591	882,403,018	$ 131,526

City of Palo Alto Power Purchase

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

[2]Revenue includes metered and non-metered charges and revenue adjustments. Revenue does not include California Energy Commission (CEC) surcharges, Utility Users Tax (UUT), Primary Voltage and Rate Assistance (RAP) discounts and deposits. Parts of this schedule are provided as required by the Continuing Disclosure Agreement for the City's Utility Revenue Bond and are not required by Governmental Accounting Standards Board (GASB).

Source: City of Palo Alto, Utilities and Accounting Departments

CITY OF PALO ALTO
Supplemental Disclosure for Water Utilities
Fiscal Year 2019

Top Ten Largest Water Utility Customers (alphabetical order)

City of Palo Alto
Oak Creek Apartments
Palo Alto Hills Golf & Country Club
Palo Alto Unified School District
Simon Property Group
Stanford Hospital & Clinics
Stanford West Management
Veterans Administration Hospital
Vi at Palo Alto
VMware Inc.

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

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

Source: City of Palo Alto, Utilities Department

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

Top Ten Largest Gas Utility Customers (alphabetical order)

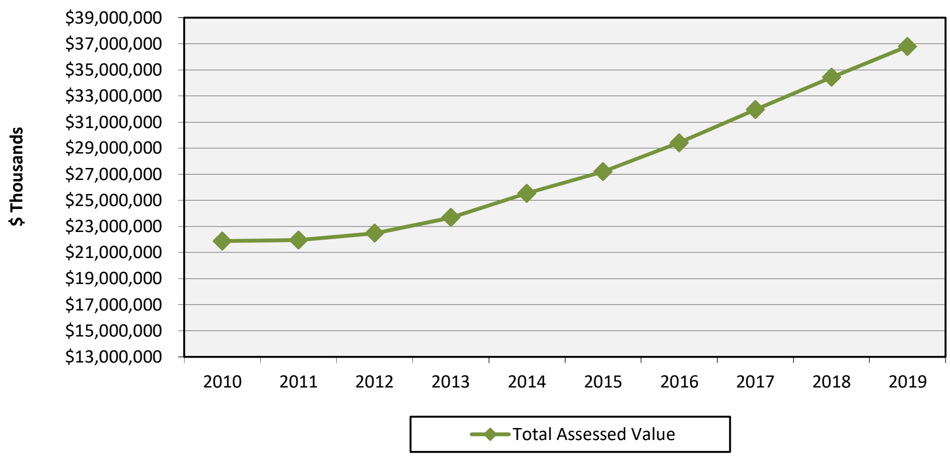
City of Palo Alto
Communications & Power Industries (CPI)
Genencor International
Hewlett Packard
Palo Alto Unified School District
Space Systems/Loral, LLC
Stanford Hospital & Clinics
Stanford University
Veterans Administration Hospital
VMware Inc.

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

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

Source: City of Palo Alto, Utilities Department

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

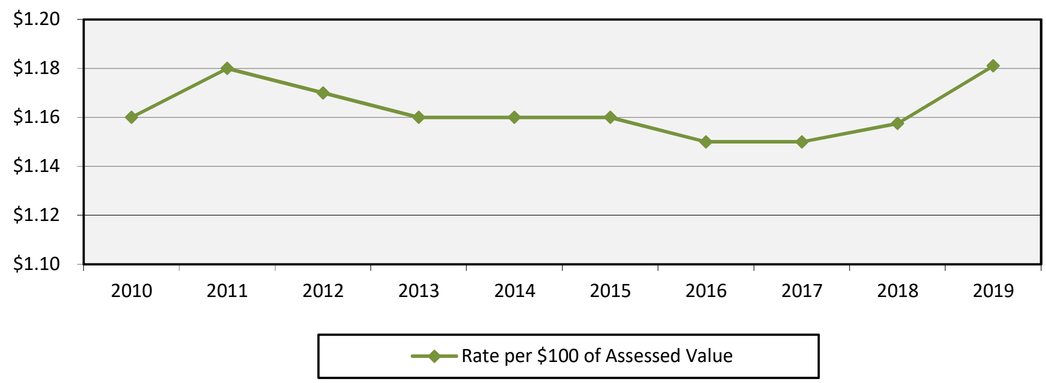


	Fiscal Year Ended June 30									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Net Local Secured Roll										
Land	$ 11,007,650	$ 11,011,160	$ 11,352,993	$ 12,255,515	$ 13,357,851	$ 14,409,837	$ 15,718,665	$ 17,333,969	$ 18,770,642	$ 20,386,904
Improvements	10,752,671	10,962,928	11,703,597	12,381,306	12,984,735	13,633,986	14,998,502	16,752,295	18,642,970	19,845,666
Personal property	288,148	241,280	257,436	287,296	307,499	290,590	310,929	306,576	300,352	181,381
	22,048,469	22,215,368	23,314,026	24,924,117	26,650,085	28,334,413	31,028,096	34,392,840	37,713,964	40,413,951
Less:										
Exemptions net of state aid	(1,809,119)	(1,757,241)	(2,346,728)	(2,589,653)	(2,610,521)	(2,761,495)	(3,409,836)	(4,244,500)	(5,203,968)	(5,522,323)
Total Net Local Secured Roll	20,239,350	20,458,127	20,967,298	22,334,464	24,039,564	25,572,918	27,618,260	30,148,340	32,509,996	34,891,628
Public utilities	2,573	2,573	2,573	2,573	2,573	2,573	2,573	2,573	2,573	7,004
Unsecured property	1,638,436	1,495,574	1,516,837	1,355,970	1,493,922	1,622,636	1,794,921	1,803,468	1,922,170	1,902,781
Total Assessed Value	$ 21,880,359	$ 21,956,274	$ 22,486,708	$ 23,693,007	$ 25,536,059	$ 27,198,127	$ 29,415,754	$ 31,954,381	$ 34,434,739	$ 36,801,413
Total Direct Tax Rate	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%

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

Source: County of Santa Clara Assessor's Office

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



Fiscal Year	Basic County Wide Levy	County Retirement Levy	County Hospital G.O. Bond (Measure A)[1]	City Library G.O. Bond (Measure N)[2]	Santa Clara Valley Water District	School District	Community College	Midpeninsula Open Space[3]	County Affordable Housing Bond (Measure A)[4]	Total Direct and Overlapping Rates
2010	1.00	0.0388	0.0122	-	0.0074	0.0686	0.0322			1.16
2011	1.00	0.0388	0.0095	0.0171	0.0072	0.0751	0.0326			1.18
2012	1.00	0.0388	0.0047	0.0155	0.0064	0.0742	0.0297			1.17
2013	1.00	0.0388	0.0051	0.0129	0.0069	0.0718	0.0287			1.16
2014	1.00	0.0388	0.0035	0.0177	0.0070	0.0655	0.0290			1.16
2015	1.00	0.0388	0.0091	0.0159	0.0065	0.0657	0.0276			1.16
2016	1.00	0.0388	0.0088	0.0148	0.0057	0.0604	0.0240	0.0008		1.15
2017	1.00	0.0388	0.0086	0.0129	0.0086	0.0591	0.0234	0.0006		1.15
2018	1.00	0.0388	0.0082	0.0118	0.0062	0.0570	0.0220	0.0009	0.0127	1.16
2019	1.00	0.0388	0.0072	0.0111	0.0042	0.0858	0.0217	0.0018	0.0105	1.18

Notes: [1]The County General Obligation Bond (Measure A) was passed in 2008 to fund the seismic upgrade of the Santa Clara Valley Medical Center. Rates were first levied for the 2009-10 fiscal year.

[2]The City of Palo Alto General Obligation Bond (Measure N) was passed in 2008 to fund the construction and renovation of three of the City's libraries. Rates were first levied for the 2010-11 fiscal year.

[3]The Midpeninsula Regional Open Space District Bond Issue and Property Tax, Measure AA, passed in 2014.

[4]The Santa Clara County Affordable Housing Bond - Measure A 2016 passed on November 8, 2016.

Source: County of Santa Clara, Tax Rates and Information

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

Fiscal Year	Total Tax	Collected within the Fiscal Year of the Levy		Collections in	Total Collections to Date	
Ended June 30	Levy[1] for FY	Amount	Percentage of Levy	Subsequent Years[2]	Amount	Percentage of Levy
2010	$ 25,981	$ 25,981	100%	-	$ 25,981	100%
2011	25,688	25,688	100%	-	25,688	100%
2012	26,494	26,494	100%	-	26,494	100%
2013	28,742	28,742	100%	-	28,742	100%
2014	30,587	30,587	100%	-	30,587	100%
2015	34,117	34,117	100%	-	34,117	100%
2016	36,607	36,607	100%	-	36,607	100%
2017	39,381	39,381	100%	-	39,381	100%
2018	42,839	42,839	100%	-	42,839	100%
2019	47,327	47,327	100%	-	47,327	100%

Notes: [1]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.

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

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

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

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

Total City Taxable Assessed Value:

FY 2019	$ 36,801,413
FY 2010	$ 21,880,359

Source: California Municipal Statistics, Inc.

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

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

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

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

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Per Parcel Assessed Valuation of Single Family Residential
As of June 30, 2019

	No. of Taxable Parcels[1]	2018-2019 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	15,046	$20,621,273,432	$1,370,549	$981,333

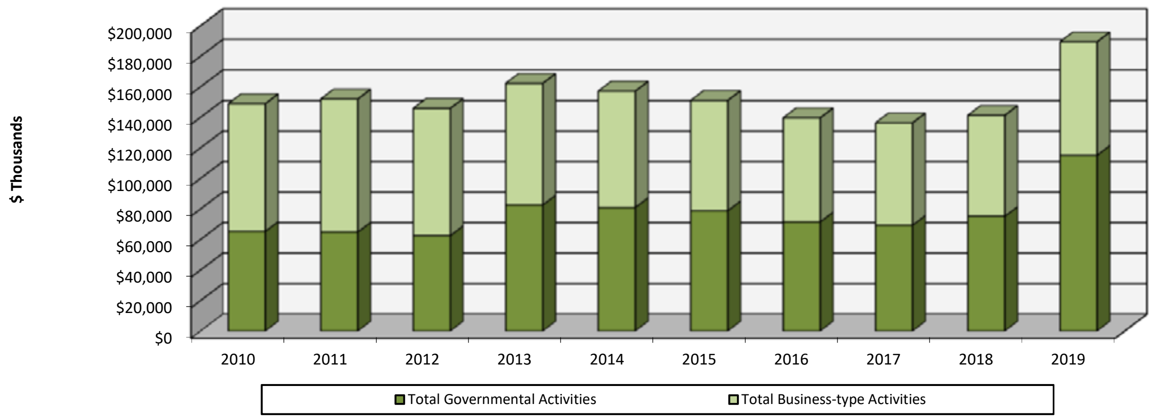
2018-2019 Assessed Valuation	No. of Taxable Parcels[1]	% of Total Parcels	Cumulative % of Total Parcels	Total Valuation	% of Total Valuation	Cumulative % of Total Valuation
$0-99,999	989	6.57	6.57	$ 79,633,247	0.39	0.39
$100,000-199,999	1,694	11.26	17.83	235,648,435	1.14	1.53
$200,000-299,999	763	5.07	22.90	189,109,555	0.92	2.45
$300,000-399,999	685	4.55	27.46	237,520,031	1.15	3.60
$400,000-499,999	582	3.87	31.32	261,675,882	1.27	4.87
$500,000-599,999	637	4.23	35.56	350,220,578	1.70	6.57
$600,000-699,999	657	4.37	39.92	425,039,262	2.06	8.63
$700,000-799,999	570	3.79	43.71	427,135,161	2.07	10.70
$800,000-899,999	478	3.18	46.89	407,331,229	1.98	12.67
$900,000-999,999	584	3.88	50.77	554,955,818	2.69	15.36
$1,000,000-1,099,999	531	3.53	54.30	557,321,101	2.70	18.07
$1,100,000-1,199,999	516	3.43	57.73	592,667,085	2.87	20.94
$1,200,000-1,299,999	413	2.74	60.47	515,011,442	2.50	23.44
$1,300,000-1,399,999	434	2.88	63.36	585,810,095	2.84	26.28
$1,400,000-1,499,999	388	2.58	65.94	563,108,182	2.73	29.01
$1,500,000-1,599,999	386	2.57	68.50	597,626,574	2.90	31.91
$1,600,000-1,699,999	378	2.51	71.02	623,525,260	3.02	34.93
$1,700,000-1,799,999	331	2.20	73.22	578,946,367	2.81	37.74
$1,800,000-1,899,999	298	1.98	75.20	551,743,555	2.68	40.41
$1,900,000-1,999,999	284	1.89	77.08	553,327,425	2.68	43.10
$2,000,000 and greater	3,448	22.92	100.00	11,733,917,348	56.90	100.00
Total	15,046	100.00		$ 20,621,273,632	100.00	

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

[1]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									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Governmental Activities										
Certificates of Participation	$ 6,765	$ 5,895	$ 1,685	$ 1,560	$ 1,430	$ 1,285	$ 1,135	$ 975	$ 8,970	$ 46,305
General Obligation Bonds	55,305	55,305	54,540	74,235	73,215	71,795	65,210	63,710	62,140	60,500
2011 Lease-Purchase Agreement	-	-	2,764	2,400	2,026	1,643	1,248	842	426	-
Add: unamortized premium	3,766	3,640	3,514	4,400	4,242	4,084	3,926	3,768	3,610	8,331
Less: unamortized discount/ issuance costs	(571)	-	-	-	-	-	-	-		
Total Governmental Activities	65,265	64,840	62,503	82,595	80,913	78,807	71,519	69,295	75,146	115,136
Business-type Activities										
Utility Revenue Bonds	72,104	69,551	65,879	63,104	60,224	57,224	54,095	50,825	47,400	43,815
Energy Tax Credits	1,200	1,100	1,000	900	800	700	600	500	400	300
State Water Resources Loan	13,080	16,696	15,900	15,109	14,309	13,500	12,681	15,034	17,711	29,589
Less: unamortized discount/ issuance costs	(2,737)	(229)	580	543	867	803	737	673	608	544
Total Business-type Activities	83,647	87,118	83,359	79,656	76,200	72,227	68,113	67,032	66,119	74,248
Total Primary Government Outstanding Debt	$ 148,912	$ 151,958	$ 145,862	$ 162,251	$ 157,113	$ 151,034	$ 139,632	$ 136,327	$ 141,265	$ 189,384
Percentage of Personal Income[1]	4.51%	3.86%	3.36%	3.36%	3.24%	2.94%	2.52%	2.38%	2.33%	2.88%
Population	65,408	64,417	65,544	66,368	66,861	66,029	66,968	66,478	66,649	67,082
Debt Per Capita	$ 2.28	$ 2.36	$ 2.23	$ 2.44	$ 2.35	$ 2.29	$ 2.09	$ 2.05	$ 2.12	$ 2.82

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

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

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

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

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

	Ratio to Assessed Valuation	
Total Direct Debt	0.29%	$ 106,805,000 [3]
Total Overlapping Debt	1.55%	571,298,031
Total Direct and Overlapping Debt	1.84%	$ 678,103,031 [2]

Notes: Overlapping debt is the financial obligations of one political jurisdiction that also falls partly on a nearby jurisdiction. The amount of debt of each unit applicable to the reporting unit is arrived at by 1) determining what percentage of the total assessed value of the overlapping jurisdiction lies within the limits of the reporting unit, and 2) applying this percentage to the total debt of the overlapping jurisdiction.

[1] Percentage of overlapping agency's assessed valuation located within boundaries of the city.

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

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

Source: California Municipal Statistics, Inc.

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

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

Fiscal Year	Total Assessed Value (AV)	Bonded Debt Limit (3.75% of AV)	Total Net Debt Applicable to Limit	Legal Bonded Debt Margin	Population	Total Net Debt Applicable to the Debt as a %	Ratio of Net Debt to Assessed Value	General Bonded Debt Per Capita
2010	$ 21,085,609	$ 790,710	$ 55,305	$ 735,405	65,408	6.99%	0.0026	0.85
2011	21,880,359	820,513	55,305	765,208	64,417	6.74%	0.0025	0.86
2012	21,956,274	823,360	54,540	768,820	65,544	6.62%	0.0025	0.83
2013	22,486,708	843,252	74,235	769,017	66,368	8.80%	0.0033	1.12
2014	23,693,007	888,488	73,215	815,273	66,861	8.24%	0.0031	1.10
2015	27,198,127	1,019,930	71,795	948,135	66,029	7.04%	0.0026	1.09
2016	29,415,754	1,103,091	65,210	1,037,881	66,968	5.91%	0.0022	0.97
2017	31,954,381	1,198,289	63,710	1,134,579	66,478	5.32%	0.0020	0.96
2018	34,434,739	1,291,303	62,140	1,229,163	66,649	4.81%	0.0018	0.93
2019	36,801,413	1,380,053	60,500	1,319,553	67,082	4.38%	0.0016	0.90

Notes:

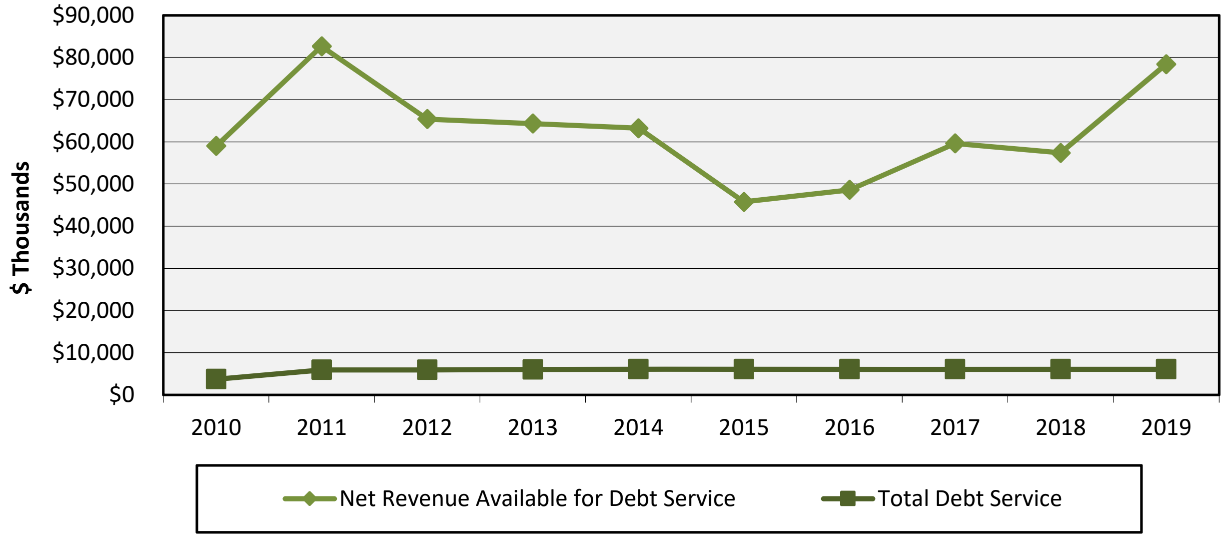
[1]California Government Code, Section 43605 sets the debt limit at 15% of the assessed value of all real and personal property of the City. Because this Code section was enacted when assessed value was 25% of market value, the limit is calculated at one-fourth, or 3.75%. This legal debt margin applies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

[2]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.

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

Source: Annual Financial Statements, Assessed Value of Taxable Property and Note 7 General Long-Term Obligations

CITY OF PALO ALTO
Revenue Bond Coverage
Business-type Activities[1]
Last Ten Fiscal Years
(Amounts in thousands)

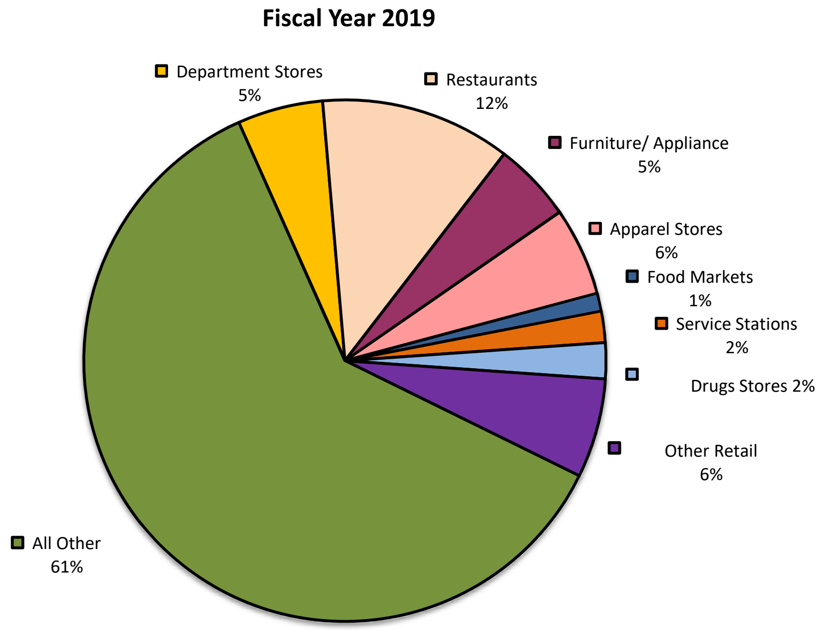


Fiscal Year	Gross Revenue	Less: Direct Operating Expenses[2]	Net Revenue Available for Debt Service	Debt Service Principal	Debt Service Interest[3]	Debt Service Total	Coverage Ratio
2010	$ 230,308	$ 171,320	$ 58,988	$ 1,755	$ 1,954	$ 3,709	15.90
2011	234,278	151,641	82,637	2,655	3,261	5,916	13.97
2012	235,160	169,777	65,383	2,945	2,959	5,904	11.07
2013	237,842	173,510	64,332	2,875	3,167	6,042	10.65
2014	239,948	176,718	63,230	2,980	3,073	6,053	10.45
2015	234,025	188,276	45,749	3,100	2,954	6,054	7.56
2016	235,386	186,793	48,593	3,230	2,823	6,053	8.03
2017	264,734	205,102	59,632	3,370	2,678	6,048	9.86
2018	288,610	231,255	57,355	3,525	2,524	6,049	9.48
2019	306,237	227,824	78,413	3,685	2,359	6,044	12.97

Notes: [1]Airport, Refuse and Fiber Optics funds have no debt and are therefore excluded from this schedule.
[2]Excludes depreciation and amortization expense.
[3]Excludes joint venture debt service and federal interest subsidy.

Source: City of Palo Alto, Accounting Department

CITY OF PALO ALTO
Taxable Transactions by Type of Business
Last Ten Fiscal Years
(Amounts in thousands)



Fiscal Year	Department Stores	Restaurants	Furniture/ Appliance	Apparel Stores	Food Markets	Service Stations	Drug Stores	Other Retail	All Other	Total
	ECONOMIC SEGMENT									
2010	$ 2,215	$ 2,418	$ 1,402	$ 1,254	$ 343	$ 549	$ 219	$ 4,458	$ 5,556	$ 18,414
2011	2,374	2,621	1,564	1,292	381	630	242	4,873	6,322	20,299
2012	2,445	2,937	1,590	1,492	387	722	257	5,049	7,034	21,913
2013	2,478	3,160	1,465	1,656	424	765	259	4,056	13,729	27,992
2014	2,097	3,541	1,555	2,041	392	772	444	4,845	9,890	25,577
2015	2,398	3,894	1,672	1,708	435	699	265	3,674	11,253	25,998
2016	2,250	4,134	1,410	1,694	448	582	257	4,949	12,423	28,147
2017	2,036	4,079	1,513	1,794	542	502	259	3,810	14,325	28,860
2018	2,001	4,224	1,716	1,647	428	614	243	3,184	15,663	29,720
2019	1,934	4,299	1,795	1,994	409	706	810	2,245	22,254	36,446

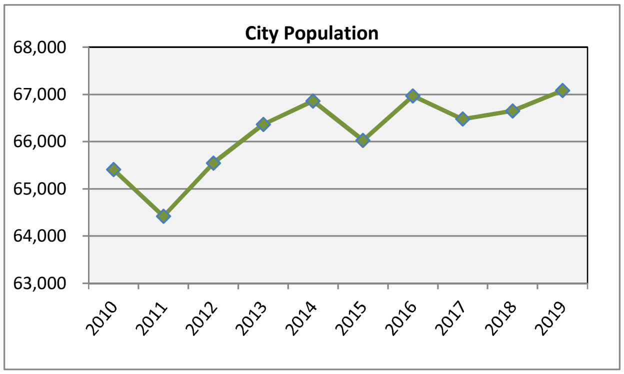
Source: California State Board of Equalization, compiled by MuniServices LLC

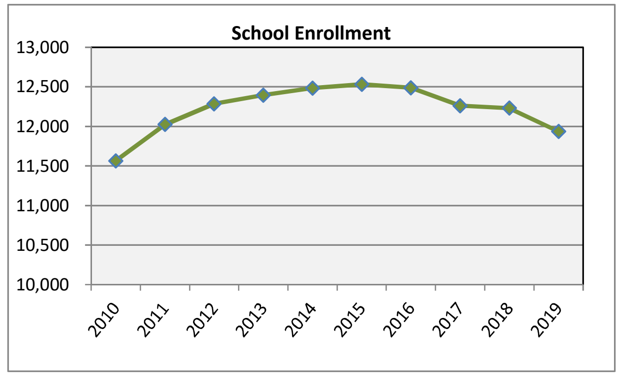
Sales Tax Rates for the Fiscal Year ended June 30, 2019

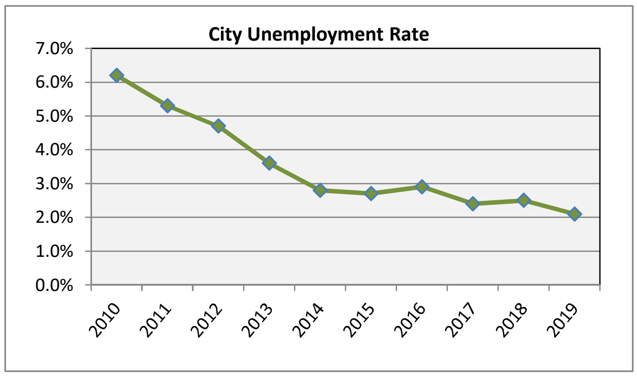
State Rate:	7.25%
Special District Tax Rates:	
Santa Clara County Transit District (SCCT)	0.50%
Santa Clara County Valley Transportation Authority (SCVT)	0.50%
Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax (SVTB)	0.125%
Santa Clara Retail Transactions and Use Tax (SCCR)	0.125%
Santa Clara County Valley Transportation Authority (SCVT)	0.50%
Total Sales and Use Tax Rate:	**9.000%**

Source: California State Board of Equalization

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







Fiscal Year	City of Palo Alto Population	City of Palo Alto Unemployment Rate	City of Palo Alto School Enrollment	Santa Clara County Population	City Population as a Percentage of County Population	Santa Clara County Total Personal Income (in thousands)		Santa Clara County Per Capita Personal Income (in thousands)	
2010	65,408	6.2%	11,565	1,880,876	3.48%	95,000,000		50,508	
2011	64,417	5.3%	12,024	1,786,443	3.61%	109,300,000	*	61,183	*
2012	65,544	4.7%	12,286	1,813,860	3.61%	120,100,000	*	66,212	*
2013	66,368	3.6%	12,396	1,840,218	3.61%	134,000,000	*	72,817	*
2014	66,861	2.8%	12,483	1,866,208	3.58%	135,200,000	*	72,446	*
2015	66,029	2.7%	12,532	1,890,929	3.49%	147,300,000	*	77,898	*
2016	66,968	2.9%	12,488	1,915,102	3.50%	158,700,000	*	82,868	*
2017	66,478	2.4%	12,261	1,930,215	3.44%	166,600,000		86,312	
2018	66,649	2.5%	12,230	1,948,176	3.42%	177,600,000		91,162	
2019	67,082	2.1%	11,938	1,965,597	3.41%	192,600,000		97,985	

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

Source: Beginning in 2015 population is sourced from the US Census Bureau Community Survey (via the City of Palo Alto's Official City Data Set).
State of California Employment Development Office (unemployment rate)
Palo Alto Unified School District (school enrollment)
* California Department of Transportation Long-Term Socio-Economic Forecasts (personal income). Forecasts from prior years are updated annually.

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

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

Estimated Total City Day Population:

FY 2019	132,112
FY 2010	110,246

Notes: [1]Available data sources are limited and may be unreliable. The City does not affirm the validity of this data. 2019 numbers are rounded. Figures may include employees not located within City limits.
[2]FY19 data was not available for Stanford Health Care and Stanford University. Prior year's data was used.

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

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CITY OF PALO ALTO
Operating Indicators by Function/Program
Last Ten Fiscal Years[1]

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

Notes: [1]Ten most recent years available.

[2]According to the department, this measure was not accurately tracked during FY13 or FY14.

[3]Prior-year data has been updated based on annual counts revised by Caltrain. Beginning 2015, data source is Official City Data Set.

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

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

Fiscal Year Ended June 30					
2013	2014	2015	2016	2017	2018
184	108	172	161	171	160
-	-	47,504	65,723	71,431	65,443
60,153	46,527	42,048	42,573	-	6,790
11,598	11,997	12,586	12,974	11,649	10,652
307	310	335	383	365	376
3,682	3,624	3,844	3,492	2,970	3,105
6,763	7,564	8,294	9,622	9,994	9,977
54,628	58,559	59,795	53,870	53,901	55,480
2,274	2,589	3,273	2,988	2,745	2,678
43,877	36,551	41,412	37,624	33,661	37,441
2,909	2,398	2,013	2,421	1,674	1,737
2,675	2,480	2,143	2,184	2,211	2,077
7,904	7,829	8,548	8,882	9,153	8,981
150	150	135	150	155	189
2,069	1,741	1,964	2,806	5,476	9,581
51,007	46,950	51,792	57,307	54,676	56,159
277,749	361,103	429,460	461,292	427,548	472,895
1,512,975	1,364,872	1,499,406	1,400,926	1,524,614	1,538,118
36	36	31	39	39	31
2,726	3,418	2,487	3,435	3,449	2,835
82,118	74,051	120,776	115,293	17,275	38,557
245	148	305	387	319	411
47,941	49,594	50,546	56,438	60,582	57,744
29,299	29,338	29,065	29,304	29,616	29,475
156,411	153,190	145,284	150,112	148,986	149,526
23,659	23,592	23,461	23,467	23,637	23,395
10,834,793	10,253,776	8,537,754	9,535,377	10,233,669	10,261,276
20,043	20,037	20,061	19,994	20,213	20,000
2,521,930	2,496,549	2,052,176	1,696,383	1,856,879	2,120,588
22,152	22,105	21,990	22,016	22,216	21,979
7,546	7,186	6,512	6,387	7,176	6,464

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

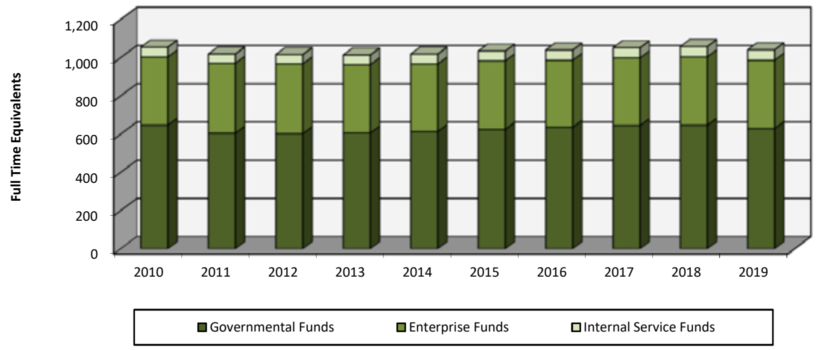
	Fiscal Year Ended June 30				
	2010	**2011**	**2012**	**2013**	**2014**
FUNCTION/PROGRAM					
Public Safety					
Fire:					
Fire Stations Operated	8	8	7	7	7
Police:					
Police Stations	1	1	1	1	1
Police Patrol Vehicles	30	30	30	30	30
Community Services					
Acres - Downtown/Urban Parks[2]	157	157	157	157	157
Acres - Open Space[2]	3,744	3,744	3,744	3,744	3,744
Acres - Parks and Preserves[2]	-	-	-	-	-
Acres - Open Space[2]	-	-	-	-	-
Acres - Municipal Golf Course[2]	-	-	-	-	-
Parks and Preserves	36	36	36	36	36
Golf Course (see above for acreage)	1	1	1	1	1
Tennis Courts	51	51	51	51	51
Athletic Center	4	4	4	4	4
Community Centers	4	4	4	4	4
Theaters	3	3	3	3	3
Cultural Center/Art Center	1	1	1	1	1
Junior Museum and Zoo	1	1	1	1	1
Swimming Pools	1	1	1	1	1
Nature Center	3	3	3	3	3
Libraries					
Libraries	5	5	5	5	5
Public Works:					
Number of Trees Maintained[3]	32,007	31,993	31,890	31,923	31,757
Electric Utility[1]					
Miles of Overhead Lines	193	193	223	222	223
Miles of Underground Lines	253	253	245	246	249
Water Utility					
Miles of Water Mains	214	214	234	233	236
Gas Utility					
Miles of Gas Mains	205	205	210	210	214
Waste Water					
Miles of Sanitary Sewer Lines	207	207	217	217	217

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

Source: City of Palo Alto

Fiscal Year Ended June 30				
2015	2016	2017	2018	2019
7	7	7	7	7
1	1	1	1	1
30	30	30	30	30
157	-	-	-	-
3,752	-	-	-	-
-	3,921	174	174	174
-	4,489	4,030	4,030	4,030
-	-	181	181	181
36	36	36	36	36
1	1	1	1	1
51	51	51	51	51
4	4	4	4	4
4	4	4	4	4
3	3	3	3	3
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
3	3	3	3	3
5	5	5	5	5
31,652	31,699	31,712	31,849	31,815
223	222	223	222	220
262	268	264	272	274
236	235	236	236	236
211	209	210	210	210
217	216	216	216	216

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



	Full Time Equivalent Employees as of June 30									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Governmental Funds										
General Fund:										
Administrative	89	83	83	85	83	84	86	87	89	87
Community Services	94	74	74	74	74	76	77	78	79	78
Development Services[5]	-	-	-	-	-	38	38	36	36	36
Fire	123	121	122	119	116	107	107	109	109	98
Library	42	41	41	41	42	44	48	48	48	48
Office of Emergency Services[4]	-	-	-	-	3	3	3	3	3	3
Planning and Community Environment[5]	49	44	43	48	49	28	31	32	30	30
Police	161	157	157	154	155	155	155	155	155	155
Public Works[1]	64	59	56	57	56	53	54	56	55	51
Subtotal General Fund	**622**	**579**	**576**	**578**	**578**	**588**	**599**	**604**	**604**	**586**
All Other Funds:										
Capital Projects Fund	24	24	24	26	27	27	28	31	34	33
Special Revenue Fund	1	2	2	2	9	10	9	10	9	10
Total Governmental Funds	**647**	**605**	**602**	**606**	**614**	**625**	**636**	**645**	**647**	**629**
Enterprise Funds										
Public Works[2]	115	115	115	104	99	100	95	99	101	101
Utilities[3]	242	251	251	254	255	258	256	255	257	257
External Services[4]	-	-	-	-	-	-	-	-	-	-
Total Enterprise Funds	**357**	**366**	**366**	**358**	**354**	**358**	**351**	**354**	**358**	**358**
Internal Service Funds										
Printing and Mailing	4	2	2	2	2	2	2	2	2	2
Technology	31	30	30	31	32	32	34	35	36	36
Vehicle Replacement	16	16	16	17	17	17	17	16	16	16
Total Internal Service Funds	**51**	**48**	**48**	**50**	**51**	**51**	**53**	**53**	**54**	**54**
Total	1,055	1,019	1,016	1,014	1,019	1,034	1,040	1,052	1,059	1,041

Notes: [1]Fleet and Facilities Management
[2]Refuse, Storm Drainage, Wastewater Treatment
[3]Electric, Gas, Wastewater Collection, Water
[4]In 2014, emergency services and disaster preparation activities have been removed from the Fire Department and are now shown in newly created Office of Emergency Services.
[5]In FY15, staff was moved from Planning and Community Environment (PC&E), Public Works and Fire to create Development Services.
Numbers adjusted for rounding purposes.

Source: City of Palo Alto - Fiscal Year 2019 Adopted Operating Budget

CITY OF PALO ALTO
Index to the Single Audit Report
For the Year Ended June 30, 2019

Page

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Palo Alto, California (City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 4, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Macias Gini & O'Connell LLP
2121 N. California Boulevard, Suite 750
Walnut Creek, CA 94596

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 4, 2019

MGO Certified Public Accountants

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the City of Palo Alto's, California (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2019. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

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

Macias Gini & O'Connell LLP
2121 N. California Boulevard, Suite 750
Walnut Creek, CA 94596

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

Macias Gini & O'Connell LLP

Walnut Creek, California
November 4, 2019

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

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

See accompanying notes to the Schedule of Expenditures of Federal Awards

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NOTE 1 – REPORTING ENTITY

The schedule of expenditures of federal awards (the Schedule) includes expenditures of federal awards for the City of Palo Alto, California (City), and its component unit as disclosed in the notes to the basic financial statements.

NOTE 2 – BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of measurement focus applied. All governmental funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of federal awards reported in the Schedule are recognized when incurred and all eligibility requirements have been met. Such expenditures are recognized following the cost principles contained in 2 CFR 200, Subpart E (Cost Principles), wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City did not elect to use the 10% de minimis cost rate as covered in 2 CFR 200.414(F&A) costs.

NOTE 3 – DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

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

NOTE 4 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the Schedule agree to or can be reconciled with the amounts reported in the related federal financial reports.

NOTE 5 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal awards and expenditures agree to or can be reconciled with the amounts reported in the City's basic financial statements.

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

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on the basic financial statements of the City:	Unmodified
Internal control over financial reporting:	
♦ Material weakness(es) identified?	No
♦ Significant deficiency(ies) identified?	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
♦ Material weakness(es) identified?	No
♦ Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	No
Identification of Major Programs:	CFDA No. 14.218 – CDBG Entitlement Grants Cluster
	CFDA No. 20.106 - Airport Improvement Program
	CFDA No. 20.205 – Highway Planning and Construction
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as a low-risk auditee?	No

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

Section II – Financial Statements Findings

No current year findings are reported.

Section III - Federal Award Findings and Questioned Costs

No current year findings are reported.

ADMINISTRATIVE SERVICES

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

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

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

Condition:

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

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

1. The SWRCB letter on August 4, 2018 clarified that the project costs included in the first two draws submitted to SWRCB were applied to the federal awards first, before applying them to State funding sources. Therefore, an adjustment of $4,000,000 was necessary to reduce the SWRCB loan balance and recognize grant revenue for the year ended June 30, 2018.

2. The City incurred eligible project costs of $4,964,775 during the year ended June 30, 2018 and submitted the loan draws subsequent to year end. Accordingly, the City accrued draws made in July and August as a receivable from the SWRCB and as an obligation for SWRCB loan payable. The draws for the $4,964,775 were not made by June 30, 2018, therefore City does not owe that amount to SWRCB as of year-end and overstated its obligation for the SWRCB loan. An audit adjustment of $4,964,775 was necessary to reduce the SWRCB loan balance at June 30, 2018 and reduce receivables from the SWRCB to properly account for the loan.

Recommendation:

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

Status:

Corrective action plan has been implemented.

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Americans with Disabilities Act Statement

IN COMPLIANCE WITH

AMERICANS WITH DISABILITIES ACT (ADA) OF 1990,

THIS DOCUMENT MAY BE PROVIDED

IN OTHER ACCESSIBLE FORMATS.

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

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 250 Hamilton Avenue, Palo Alto, CA 94301 **P** 650.329.2100 **W** cityofpaloalto.org