

## PRELIMINARY OFFICIAL STATEMENT DATED MAY 5, 2022

### TWO NEW ISSUES—FULL BOOK-ENTRY

### **RATING:**

Standard & Poor's: "AAA"

See "RATING" herein.

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2022A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. *Interest on the 2022B Bonds is not excludable from gross income of the owners thereof for federal income tax purposes.* In the further opinion of Bond Counsel, interest on the 2022 Bonds is exempt from California personal income taxes. See "TAX MATTERS."



**\$35,795,000\***  
**CITY OF PALO ALTO**  
**(Santa Clara County, California)**  
**Refunding General Obligation**  
**Bonds (Election of 2008),**  
**Series 2022A**  
**(Tax-Exempt)**

**\$13,645,000\***  
**CITY OF PALO ALTO**  
**(Santa Clara County, California)**  
**Refunding General Obligation**  
**Bonds (Election of 2008),**  
**Series 2022B**  
**(Federally Taxable)**

**Dated: Date of Delivery**

**Due: August 1, as shown on inside cover**

*Authority for Issuance.* The \$35,795,000\* City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022A (Tax-Exempt) (the "2022A Bonds"), and the \$13,645,000\* City of Palo Alto Refunding General Obligation Refunding Bonds (Election of 2008), Series 2022B (Federally Taxable) (the "2022B Bonds" and, with the 2022A Bonds, the "2022 Bonds") are being issued by the City of Palo Alto, California (the "City") under provisions of the California Government Code and under a Resolution adopted by the City Council of the City (the "City Council") on May 2, 2022 (the "Bond Resolution"). See "THE 2022 BONDS—Authority for Issuance" herein.

*Purpose.* The 2022 Bonds are being issued to refund, (a) on a current basis, the City's outstanding City of Palo Alto General Obligation Bonds, Election of 2008, Series 2010A (the "2010 Bonds"), and (b) on an advance basis, the callable portion of the City's outstanding City of Palo Alto General Obligation Bonds, Election of 2008, Series 2013A (the "2013 Bonds" and, with the 2010 Bonds, the "Prior Bonds"). The Prior Bonds were issued to finance projects approved by the voters of the City in 2008. See "REFUNDING PLAN" herein.

*Security.* The 2022 Bonds are general obligations of the City, and the City Council of the City has the power to direct Santa Clara County (the "County") to levy *ad valorem* taxes upon all property within the City subject to taxation without limitation of rate or amount (except certain personal property which is taxable at limited rates), for the payment of the 2022 Bonds and the interest thereon. Under the Bond Resolution, the City directs the County to levy on all the taxable property in the City, in addition to all other taxes, a continuing direct and *ad valorem* tax annually during the period the 2022 Bonds are outstanding in an amount sufficient to pay the principal of and interest on the 2022 Bonds when due, without limitation of rate or amount (except certain personal property which is taxable at limited rates). See "SECURITY FOR THE 2022 BONDS" herein.

*Book-Entry Only.* The 2022 Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). The 2022 Bonds are issuable as fully registered securities in denominations of \$5,000 or any integral multiple of \$5,000. Purchasers of the 2022 Bonds (the "Beneficial Owners") will not receive physical certificates representing their interest in the 2022 Bonds. See "THE 2022 BONDS" herein and APPENDIX F—DTC AND THE BOOK-ENTRY ONLY SYSTEM.

*Payments.* Interest on the 2022 Bonds accrues from the date of delivery and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2023. Payments of principal and interest on the 2022 Bonds will be paid by U.S. Bank Trust Company, National Association, as paying agent, to DTC for subsequent disbursement to DTC Participants, which will remit such payments to the Beneficial Owners of the 2022 Bonds. See "THE 2022 BONDS—Description of the 2022 Bonds."

*Redemption.* The 2022 Bonds are subject to optional and sinking fund redemption prior to maturity. See "THE 2022 BONDS—Redemption" herein.

*Municipal Advisor.* Public Financial Management, San Francisco, California, serving as municipal advisor to the City, has structured this issue.

### **MATURITY SCHEDULE** (See inside cover)

Bids for the purchase of the 2022A Bonds will be received by the City on Tuesday, May 17, 2022, electronically only, through the I-Deal LLC BiDCOMP/PARITY® system, until 9:00 A.M., Pacific Daylight time. The 2022A Bonds will be sold pursuant to the terms of sale set forth in the Official Notice of Sale for the 2022A Bonds.

Bids for the purchase of the 2022B Bonds will be received by the City on Tuesday, May 17, 2022, electronically only, through the I-Deal LLC BiDCOMP/PARITY® system, until 10:00 A.M., Pacific Daylight time. The 2022B Bonds will be sold pursuant to the terms of sale set forth in the Official Notice of Sale for the 2022B Bonds.

*Cover Page.* This cover page contains certain information for general reference only. It is not a summary of all the provisions of the 2022 Bonds. Prospective investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The 2022 Bonds are offered when, as and if issued and received by the purchasers thereof, and subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon for the City by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel. Certain legal matters will be passed upon for the City by the City Attorney. It is anticipated that the 2022 Bonds will be delivered in book-entry form through the facilities of DTC on or about June 16, 2022.

The date of this Official Statement is \_\_\_\_\_, 2022.

\*Preliminary, subject to change.

**\$35,795,000\***  
**CITY OF PALO ALTO**  
**(Santa Clara County, California)**  
**Refunding General Obligation Bonds**  
**(Election of 2008), Series 2022A**  
**(Tax-Exempt)**

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND PRICES**

CUSIP† Prefix _____					
<b>Maturity (August 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Price</b>	<b>CUSIP† Suffix</b>
2023	\$1,195,000				
2024	1,455,000				
2025	1,530,000				
2026	1,605,000				
2027	1,690,000				
2028	1,775,000				
2029	1,860,000				
2030	1,955,000				
2031	2,050,000				
2032	2,155,000				
2033	2,265,000				
2034	2,350,000				
2035	2,445,000				
2036	2,540,000				
2037	2,645,000				
2038	2,750,000				
2039	2,865,000				
2040	665,000				

**\$13,645,000\***  
**CITY OF PALO ALTO**  
**(Santa Clara County, California)**  
**Refunding General Obligation Bonds**  
**(Election of 2008), Series 2022B**  
**(Federally Taxable)**

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND PRICES**

CUSIP† Prefix _____					
<b>Maturity (August 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Price</b>	<b>CUSIP† Suffix</b>
2024	\$ 580,000				
2025	600,000				
2026	620,000				
2027	635,000				
2028	660,000				
2029	675,000				
2030	700,000				
2031	730,000				
2032	755,000				
2033	780,000				
2034	815,000				
2035	840,000				
2036	875,000				
2037	910,000				
2038	945,000				
2039	980,000				
2040	1,020,000				
2041	525,000				

\*Preliminary, subject to change.

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*For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"), this Preliminary Official Statement constitutes an "official statement" of the City with respect to the 2022 Bonds that has been deemed "final" by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.*

*Use of Official Statement.* This Official Statement is submitted in connection with the sale of the 2022 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any bond owner and the City or the purchasers indicated in this Official Statement.

This Official Statement should be considered in its entirety. Where statutes, ordinances, reports or other documents are referenced in this Official statement, reference should be made to those documents and those sources for complete information regarding the subject matter.

*No Offering Except by This Official Statement.* No dealer, broker, salesperson or other person has been authorized by the City or the Purchasers to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the City or the Purchasers.

*No Unlawful Offers or Solicitations.* This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the 2022 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

*Information in Official Statement.* Certain of the information set forth in this Official Statement has been furnished by sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

*Document Summaries.* All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

*No Securities Laws Registration.* The 2022 Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The 2022 Bonds have not been registered or qualified under the securities laws of any state.

*Estimates and Projections.* When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

IN CONNECTION WITH THIS OFFERING, THE PURCHASERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2022 BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE PURCHASERS MAY OFFER AND SELL THE 2022 BONDS TO CERTAIN SECURITIES DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE PURCHASERS.

*Effective Date.* This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the 2022 Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the City, the County, the other parties described in this Official Statement, or the condition of the property within the City since the date of this Official Statement.

*Website.* The City maintains a website. Unless specifically indicated otherwise, the information presented on such website is not incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2022 Bonds.

## CITY OF PALO ALTO LOCATION MAP



## TABLE OF CONTENTS

INTRODUCTION .....	1	Taxation of State-Assessed Utility Property .....	14
The City .....	1	Assessed Valuation .....	14
Purpose of the Issuance of the 2022 Bonds .....	2	Bonding Capacity .....	23
Authority for Issuance .....	2	CERTAIN RISK FACTORS .....	23
Security and Sources of Payment for the 2022 Bonds ..	2	Risks to Assessed Values Generally .....	23
Description of the 2022 Bonds .....	2	Natural Calamities .....	23
Redemption .....	3	Risk of Changing Economic Conditions .....	25
Tax Matters .....	3	Public Health Emergencies .....	25
Offering and Delivery .....	3	Bankruptcy Risks .....	25
Continuing Disclosure .....	3	Cybersecurity Risks .....	26
Professionals Involved in the Bond Offering .....	3	Article XIII A of the State Constitution .....	26
Other Information .....	4	Legislation Implementing Article XIII A .....	27
THE 2022 BONDS .....	5	Article XIII B of the State Constitution .....	28
Authority for Issuance .....	5	Articles XIII C and XIII D of the State Constitution ...	28
Purposes of Issuance .....	5	Proposition 62 .....	29
Description of the 2022 Bonds .....	5	Proposition 1A; Proposition 22 .....	30
Payment .....	5	Proposition 19 .....	30
Redemption .....	6	Possible Future Initiatives .....	30
Registration, Transfer and Exchange of Bonds .....	6	LEGAL MATTERS .....	31
Defeasance .....	7	Possible Limitations on Remedies; Bankruptcy .....	31
ESTIMATED SOURCES AND USES OF FUNDS .....	7	Legal Opinions .....	32
REFUNDING PLAN .....	8	TAX MATTERS .....	33
DEBT SERVICE SCHEDULES .....	10	2022A Bonds .....	33
SECURITY FOR THE 2022 BONDS .....	10	2022B Bonds .....	34
Ad Valorem Taxes .....	10	Other Tax Considerations .....	34
Debt Service Fund .....	11	MUNICIPAL ADVISOR .....	35
Statutory Lien .....	11	CONTINUING DISCLOSURE .....	35
PAYING AGENT .....	12	LEGALITY FOR INVESTMENT IN CALIFORNIA ..	35
BOOK-ENTRY ONLY SYSTEM .....	12	ABSENCE OF MATERIAL LITIGATION .....	36
THE CITY .....	12	RATING .....	36
PROPERTY TAXATION .....	13	UNDERWRITING .....	36
Property Taxation Generally .....	13	ADDITIONAL INFORMATION .....	37
Property Tax Collection Procedures .....	13	EXECUTION .....	37

APPENDIX A:	GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY
APPENDIX B:	CITY FINANCIAL INFORMATION
APPENDIX C:	ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2021
APPENDIX D:	CITY INVESTMENT POLICY
APPENDIX E:	FORM OF OPINION OF BOND COUNSEL
APPENDIX F:	FORM OF CONTINUING DISCLOSURE CERTIFICATE
APPENDIX G:	BOOK-ENTRY SYSTEM

**CITY OF PALO ALTO**  
**250 Hamilton Avenue**  
**Palo Alto, California 94301**  
**<http://www.cityofpaloalto.org>**

**CITY COUNCIL MEMBERS**

Patrick Burt, *Mayor*  
Lydia Kou, *Vice Mayor*  
Alison Cormack, *Councilmember*  
Tom DuBois, *Councilmember*  
Eric Filseth, *Councilmember*  
Greer Stone, *Councilmember*  
Greg Tanaka, *Councilmember*

**CITY OFFICIALS**

Edward K. Shikada, *City Manager*  
Kiely Nose, *Acting Assistant City Manager/Chief Financial Officer/Administrative Services Director*  
Meghan Horrigan-Taylor, *Chief Communications Officer*  
David Ramberg, *Assistant Director of Administrative Services*  
Brad Eggleston, *Director of Public Works*  
Tarun Narayan, *Manager of Treasury, Debt & Investments*  
Molly S. Stump, Esq., *City Attorney*  
Lesley Milton, *City Clerk*

**SPECIAL SERVICES**

**Bond Counsel**

Jones Hall, A Professional Law Corporation  
*San Francisco, California*

**Disclosure Counsel**

Quint & Thimmig LLP  
*Larkspur, California*

**Financial Advisor**

PFM Financial Advisors LLC  
*San Francisco, California*

**Paying Agent and Escrow Bank**

U.S. Bank Trust, National Association  
*San Francisco, California*

**Verification Agent**

Precision Analytics Inc.  
*Morristown, New Jersey*

\*Information therein is not incorporated by reference into this Official Statement.

**\$35,795,000\***  
**CITY OF PALO ALTO**  
**Refunding General Obligation Bonds**  
**(Election of 2008), Series 2022A**  
**(Tax-Exempt)**

**\$13,645,000\***  
**CITY OF PALO ALTO**  
**Refunding General Obligation Bonds**  
**(Election of 2008), Series 2022B**  
**(Federally Taxable)**

**INTRODUCTION**

This Official Statement, which includes the cover page and the appendices hereto, provides information in connection with the sale of the \$35,795,000\* City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022A (the “2022A Bonds”) and the \$13,645,000\* City of Palo Alto Refunding General Obligation Refunding Bonds (Election of 2008), Series 2022B (Federally Taxable) (the “2022B Bonds” and, with the 2022A Bonds, the “2022 Bonds”).

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and the appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2022 Bonds to potential investors is made only by means of the entire Official Statement.

**The City**

The City of Palo Alto (the “City”) is located in northern Santa Clara County (the “County”), approximately 35 miles south of the city of San Francisco. The City is part of the San Francisco Bay metropolitan area, and was incorporated in 1894. The City’s first Charter was granted by the State in 1909 and the City continues to operate as a charter city. Located between the cities of San Francisco and San Jose, the City is a largely built-out community. The City covers an area of twenty-six square miles and has dedicated almost one-half of the area to open spaces of parks and wildlife preserves. Public facilities include five libraries, four community centers, a cultural arts center, an adult and children’s theater, a junior museum and zoo, and a golf course. The City is located adjacent to Stanford University, one of the premier institutions of higher education in the nation. The City shares its borders with East Palo Alto, Mountain View, Los Altos, Los Altos Hills, Stanford, Portola Valley, and Menlo Park. The City’s current population is approximately 68,000.

The City is a charter city and is governed by a city council of seven representatives (the “City Council”). City Council members are elected city-wide on an at-large basis for staggered four-year terms. At the first meeting of each calendar year, Council elects a Mayor and Vice-Mayor from its membership, with the Mayor having the duty of presiding over Council meetings. Council is the appointing authority for

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\* Preliminary, subject to change.

the positions of City Manager and three other officials, the City Attorney, City Clerk, and City Auditor, all of whom report to Council.

For more complete information concerning the City, including certain financial information, see “THE CITY,” APPENDIX A—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY and APPENDIX B—CITY FINANCIAL INFORMATION. The City’s audited financial statements for the fiscal year ended June 30, 2021, are included as APPENDIX C—ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2021.

### **Purpose of the Issuance of the 2022 Bonds**

The 2022 Bonds are being issued to refund, (a) on a current basis, the City’s outstanding City of Palo Alto General Obligation Bonds, Election of 2008, Series 2010A (the “2010 Bonds”), and (b) on an advance basis, the portion of the City’s outstanding City of Palo Alto General Obligation Bonds, Election of 2008, Series 2013A, maturing on and after August 1, 2024 (the “2013 Bonds” and, with the 2010 Bonds, the “Prior Bonds”). The Prior Bonds were issued to finance project approved by the voters of the City in 2008. See “THE 2022 BONDS” and “REFUNDING PLAN.”

The Prior Bonds were authorized at an election of the registered voters of the City held on November 4, 2008, at which more than two-thirds of the persons voting on the measure voted to authorize the issuance and sale of not to exceed \$76,000,000 principal amount of general obligation bonds.

### **Authority for Issuance**

The 2022 Bonds are being issued under the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the “Bond Law”) and a resolution adopted by the City Council on May 2, 2022 (the “Bond Resolution”).

### **Security and Sources of Payment for the 2022 Bonds**

The 2022 Bonds are general obligations of the City, and the City Council has the power to direct the County to levy *ad valorem* taxes upon all property within the City subject to taxation without limitation of rate or amount (except certain personal property which is taxable at limited rates), for the payment of the 2022 Bonds and the interest thereon. Under the Bond Resolution, the City directs the County to levy on all the taxable property in the City, in addition to all other taxes, a continuing direct and *ad valorem* tax annually during the period the 2022 Bonds are Outstanding in an amount sufficient to pay the principal of and interest on the 2022 Bonds when due, without limitation of rate or amount (except certain personal property which is taxable at limited rates). See “SECURITY FOR THE 2022 BONDS.”

### **Description of the 2022 Bonds**

The 2022 Bonds are being issued as current interest bonds. The 2022 Bonds will be dated as of their date of delivery, will be issued as fully registered bonds, without coupons, in the denominations of \$5,000 principal amount or any integral multiple thereof. Interest on the 2022 Bonds accrues from their date of delivery and is payable semiannually on each February 1 and August 1 (each an “Interest Payment Date”), commencing February 1, 2023.



The 2022 Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company (“DTC”), and will be available to actual purchasers of the 2022 Bonds (the “Beneficial Owners”) in the denominations set forth on the cover page hereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the 2022 Bonds. See “BOOK-ENTRY ONLY SYSTEM” and APPENDIX G—BOOK-ENTRY SYSTEM. In event that the book-entry system described below is no longer used with respect to the 2022 Bonds, the 2022 Bonds will be registered in accordance with the Resolution as described herein. See “THE 2022 BONDS—Registration, Transfer and Exchange of Bonds.” Individual purchases of interests in the 2022 Bonds will be available to purchasers of the 2022 Bonds in the denominations of \$5,000 principal amount or any integral multiple thereof.

## **Redemption**

Certain of the 2022 Bonds are subject to optional and sinking fund redemption prior to maturity. See “THE 2022 BONDS—Redemption.”

## **Tax Matters**

Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the 2022A Bonds will be excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. *Interest on the 2022B Bonds is not excludable from gross income of the owners thereof for federal income tax purposes.* Also, in the opinion of Bond Counsel, interest on the 2022 Bonds will be exempt from State of California (the “State”) personal income taxes. See “LEGAL MATTERS—Tax Matters”

## **Offering and Delivery**

The 2022 Bonds are offered when, as and if issued and received by the purchasers, subject to approval as to their legality by Bond Counsel. It is anticipated that the 2022 Bonds will be available for delivery through the facilities of DTC on or about June 16, 2022.

## **Continuing Disclosure**

The City has covenanted for the benefit of the holders and Beneficial Owners of the 2022 Bonds to make available certain financial information and operating data relating to the City and to provide notices of the occurrence of certain enumerated events in compliance with S.E.C. Rule 15c2-12(b)(5) (the “Rule”). The specific nature of the information to be made available and of the notices of enumerated events is summarized below under the caption “CONTINUING DISCLOSURE.” Also, see APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

## **Professionals Involved in the Bond Offering**

Several professional firms have provided services to the City with respect to the sale and delivery of the 2022 Bonds. Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, will deliver its legal opinion in substantially the forms set forth in APPENDIX E—FORM OF OPINION OF BOND COUNSEL. Quint & Thimmig LLP, Larkspur, California, is serving as disclosure counsel to the City with respect to the 2022 Bonds (“Disclosure Counsel”). PFM Financial Advisors LLC, San Francisco, California, will act as municipal advisor to the City with respect to the 2022 Bonds. The payment

of fees and expenses of such firms with respect to the 2022 Bonds is contingent on the sale and delivery of the 2022 Bonds. The City's financial statements for the fiscal year ended June 30, 2021, have been audited by CliftonLarsonAllen LLP, Glendora, California. See APPENDIX C— ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2021. The purchasers of the 2022 Bonds are not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information in this Official Statement.

### **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the 2022 Bonds are available for inspection at the office of the City Clerk, City of Palo Alto, 250 Hamilton Avenue, Palo Alto, CA 94301, telephone (650) 329-2571. The City may impose a charge for copying, mailing and handling.

This Official Statement is not to be construed as a contract with the purchasers of the 2022 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each of such documents, statutes and constitutional provisions.

The information set forth herein has been obtained from official sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the City. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the 2022 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Exchange Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget," or other similar words. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

All terms used in this Official Statement and not otherwise defined shall have the meanings given such terms in the Resolution.

## **THE 2022 BONDS**

### **Authority for Issuance**

The 2022 Bonds are issued pursuant to the Bond Law and the Bond Resolution.

### **Purposes of Issuance**

The 2022A Bonds are being issued to refund, (a) on a current basis, the 2010 Bonds, and (b) on an advance basis, the callable portion of the 2013 Bonds.

The Prior Bonds were issued to finance projects approved by the voters of the City in 2008. See “REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS.”

### **Description of the 2022 Bonds**

The 2022 Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. Beneficial Owners will not receive physical certificates representing their interests in the 2022 Bonds. See “BOOK-ENTRY ONLY SYSTEM” and APPENDIX G—BOOK-ENTRY SYSTEM.

Interest on the 2022 Bonds accrues from their date of issuance and is payable semiannually on each Interest Payment Date. Interest on the 2022 Bonds accrues on the basis of a 360-day year comprised of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month next preceding any Interest Payment Date to that Interest Payment Date, inclusive, in which event it will bear interest from such Interest Payment Date, or unless it is authenticated on or before January 15, 2023, in which event it will bear interest from its date of delivery.

The 2022 Bonds are issuable in denominations of \$5,000 principal amount or any integral multiple thereof. The 2022 Bonds mature on the dates, in the years and amounts set forth on the inside cover page hereof. The principal of and interest on the 2022 Bonds (including the final interest payment upon maturity or earlier redemption) is payable by check or draft of the Paying Agent mailed by first-class mail to the Owner at the Owner’s address as it appears on the registration books maintained by the Paying Agent as of the close of business on the fifteenth day of the month next preceding such interest payment date (the “Record Date”), or at such other address as the Owner may have filed with the Paying Agent for that purpose; provided however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of the 2022 Bonds in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Paying Agent at least five (5) days before the applicable Record Date. See also “Book Entry Only System” below.

See the maturity schedule on the cover page hereof and “Debt Service Schedule.”

### **Payment**

The redemption price, if any, on the 2022 Bonds will be payable upon maturity or redemption upon surrender of such Bonds at the principal office of the Paying Agent. The interest, principal and redemption price, if any, on the 2022 Bonds will be payable in lawful money of the United States of America. The Paying Agent is authorized to pay the 2022 Bonds when duly presented for payment at maturity, and to cancel all

Bonds upon payment thereof. The 2022 Bonds are general obligations of the City and do not constitute obligations of the County. See “SECURITY FOR THE 2022 BONDS.” No funds of the County are pledged or obligated to the payment of the 2022 Bonds.

## **Redemption**

### *Optional Redemption.*

**2022A Bonds.** The 2022A Bonds maturing on and prior to August 1, 2032, are not callable for redemption prior to their stated maturity date. The 2022A Bonds maturing on and after August 1, 2033, are callable for redemption prior to their stated maturity date at the option of the City, in whole or in part on any date on or after August 1, 2032, from any source lawfully available therefor, at a redemption price equal to the principal amount of the 2022A Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

**2022B Bonds.** The 2022B Bonds maturing on and prior to August 1, 2032, are not callable for redemption prior to their stated maturity date. The 2022B Bonds maturing on and after August 1, 2033, are callable for redemption prior to their stated maturity date at the option of the City, in whole or in part on any date on or after August 1, 2032, from any source lawfully available therefor, at a redemption price equal to the principal amount of the 2022B Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

## **Registration, Transfer and Exchange of Bonds**

If the book-entry system as described above and in APPENDIX G—BOOK-ENTRY SYSTEM is no longer used with respect to the 2022 Bonds, the following provisions will govern the registration, transfer, and exchange of the 2022 Bonds.

The Paying Agent will keep or cause to be kept sufficient books for the ownership and registration of transfer of the 2022 Bonds (the “Registration Books”), which will at all times be open to inspection by the City upon reasonable notice; and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the 2022 Bonds.

Any 2022 Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such 2022 Bond for cancellation at the principal office of the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed. The City may charge a reasonable sum for each new 2022 Bond issued upon any transfer.

Whenever any Bond or Bonds are surrendered for transfer, the City will execute and the Paying Agent will authenticate and deliver a new 2022 Bond or 2022 Bonds, for like aggregate principal amount.

2022 Bonds may be exchanged at the principal office of the Paying Agent for a like aggregate principal amount of 2022 Bonds of authorized denominations and of the same maturity. The City may charge a reasonable sum for each new Bond issued upon any exchange.

## Defeasance

The City has the option to pay and discharge the entire indebtedness on all or any portion of the outstanding 2022 Bonds in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of and interest on such 2022 Bonds, as and when the same become due and payable;
- (b) by irrevocably depositing, in trust, at or before maturity, (i) money in an amount equal to the principal amount of such 2022 Bonds and all unpaid interest thereon to maturity or (ii) Federal Securities, the principal of and interest on which when due, in the opinion of a certified public accountant delivered to the City, will provide money sufficient to pay the principal of and all unpaid interest to maturity on the 2022 Bonds to be paid, as such principal and interest become due; or
- (c) by delivery such 2022 Bonds to the Paying Agent for cancellation by it.

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

## ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the 2022 Bonds are as follows:

### Sources of Funds:

	2022A Bonds	2022B Bonds	Total
Principal Amount of 2022 Bonds			
Total Sources of Funds			

### Uses of Funds:

Refunding of 2010 Bonds			
Refunding of 2013 Bonds			
Costs of Issuance <sup>(1)</sup>			
Total Uses of Funds			

- (1) Includes the underwriters' discounts, the fees of the municipal advisor, bond counsel, disclosure counsel, the rating agency and other third-party providers. Any excess in the Costs of Issuance Fund will be transferred to the City's Debt Service Fund.

## REFUNDING PLAN

*Refunding of the 2010 Bonds.* A portion of the proceeds of the 2022A Bonds will be deposited into an escrow fund (the “2010 Escrow Fund”) created by U.S. Bank Trust Company, National Association, as escrow agent (the “Escrow Bank”), pursuant to Irrevocable Refunding Instructions given to the Escrow Bank by the City. Amounts deposited in the 2010 Escrow Fund will be held by the Escrow Bank in cash, uninvested. The cash in the 2010 Escrow Fund will be applied to redeem the 2010 Bonds on June 17, 2022, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to such date.

Precision Analytics Inc., Morristown New Jersey (the “Verification Agent”), will verify that the cash in the 2010 Escrow Fund will be sufficient for the purposes described above. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

The 2010 Bonds to be refunded are as follows:

Issue Date	Maturity Date	Interest Rate	Redemption Date	Principal Amount	Redemption Price	CUSIP <sup>†</sup> Number
6/30/10	8/1/22	4.500%	6/17/22	\$ 1,450,000	100.000	697362 TG6
6/30/10	8/1/23	4.500	6/17/22	1,515,000	100.000	697362 TH4
6/30/10	8/1/24	4.500	6/17/22	1,585,000	100.000	697362 TJ0
6/30/10	8/1/25	4.500	6/17/22	1,655,000	100.000	697362 TK7
6/30/10	8/1/26	5.000	6/17/22	1,730,000	100.000	697362 TL5
6/30/10	8/1/27	5.000	6/17/22	1,820,000	100.000	697362 TM3
6/30/10	8/1/28	5.000	6/17/22	1,910,000	100.000	697362 TN1
6/30/10	8/1/29	5.000	6/17/22	2,005,000	100.000	697362 TP6
6/30/10	8/1/32	4.375	6/17/22	6,595,000	100.000	697362 TQ4
6/30/10	8/1/34	4.375	6/17/22	4,890,000	100.000	697362 TR5
6/30/10	8/1/40	5.000	6/17/22	15,415,000	100.000	697362 TS0

A portion of the proceeds of the 2022A Bonds will be retained by the Paying Agent in a costs of issuance account (the “2022A Costs of Issuance Account”) and used to pay costs associated with the issuance of the 2022A Bonds. Any proceeds of sale of the 2022A Bonds not needed to redeem the 2010 Bonds or to pay costs of issuance of the 2022A Bonds will be held by the Paying Agent in the Debt Service Fund to be used only for payment of principal of and interest on the 2022A Bonds when due.

*Refunding of the 2013 Bonds.* A portion of the proceeds of the 2022B Bonds will be deposited into an escrow fund (the “2013 Escrow Fund”) established under an escrow agreement (the “2013 Escrow Agreement”) by and between the City and the Escrow Bank. A portion of the amounts deposit in the 2013 Escrow Fund will be invested in direct obligations of the United States of America (the “Escrowed Securities”). The maturing Escrowed Securities, the investment earnings thereon and the cash in the 2013 Escrow Fund will be applied to (1) pay interest on the 2013 Bonds to and including August 1, 2023, and to redeem the 2013 Bonds maturing on and after August 1, 2024, on August 1, 2023, at a redemption price equal to 100% of the principal amount thereof.

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The Verification Agent will verify that the maturing Escrowed Securities, the investment earnings thereon and the cash in the Escrow Fund will be sufficient for the purposes described above. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

The 2013 Bonds to be refunded are as follows:

Issue Date	Maturity Date	Interest Rate	Redemption Date	Principal Amount	Redemption Price	CUSIP <sup>†</sup> Number
6/26/13	8/1/24	5.000%	8/1/23	\$ 525,000	100.000	697362 UH2
6/26/13	8/1/25	5.000	8/1/23	555,000	100.000	697362 UJ8
6/26/13	8/1/26	5.000	8/1/23	585,000	100.000	697362 UK5
6/26/13	8/1/27	5.000	8/1/23	610,000	100.000	697362 UL3
6/26/13	8/1/28	5.000	8/1/23	645,000	100.000	697362 UM1
6/26/13	8/1/29	3.500	8/1/23	670,000	100.000	697362 UN9
6/26/13	8/1/30	4.000	8/1/23	695,000	100.000	697362 UP4
6/26/13	8/1/31	4.000	8/1/23	725,000	100.000	697362 UQ2
6/26/13	8/1/33	4.000	8/1/23	1,540,000	100.000	697362 UR0
6/26/13	8/1/35	4.000	8/1/23	1,670,000	100.000	697362 US8
6/26/13	8/1/38	4.000	8/1/23	2,765,000	100.000	697362 UT6
6/26/13	8/1/41	4.000	8/1/23	2,590,000	100.000	697362 UU3

A portion of the proceeds of the 2022B Bonds will be retained by the Paying Agent in a costs of issuance account (the “2022B Costs of Issuance Account”) and used to pay costs associated with the issuance of the 2022B Bonds. Any proceeds of sale of the 2022B Bonds not needed to redeem the 2013 Bonds or to pay costs of issuance of the 2022B Bonds will be held by the Paying Agent in the Debt Service Fund to be used only for payment of principal of and interest on the 2022B Bonds when due.

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## DEBT SERVICE SCHEDULES

The following table shows the debt service schedule with respect to the 2022 Bonds (assuming no optional redemptions).

Bond Year Ending August 1	2022A Bonds			2022B Bonds			Total
	Principal*	Interest <sup>(1)</sup>	Total	Principal*	Interest <sup>(1)</sup>	Total	
2022	—			—			
2022	—			—			
2023	\$ 1,195,000			—			
2024	1,455,000			\$ 580,000			
2025	1,530,000			600,000			
2026	1,605,000			620,000			
2027	1,690,000			635,000			
2028	1,775,000			660,000			
2029	1,860,000			675,000			
2030	1,955,000			700,000			
2031	2,050,000			730,000			
2032	2,155,000			755,000			
2033	2,265,000			780,000			
2034	2,350,000			815,000			
2035	2,445,000			840,000			
2036	2,540,000			875,000			
2037	2,645,000			910,000			
2038	2,750,000			945,000			
2039	2,865,000			980,000			
2040	665,000			1,020,000			
2041	—			525,000			
Total	<u>\$35,795,000</u>			<u>\$13,645,000</u>			

\*Preliminary, subject to change.

(1) Interest on the 2022 Bonds is payable semiannually on each February 1 and August 1, commencing February 1, 2023.

## SECURITY FOR THE 2022 BONDS

### Ad Valorem Taxes

*Bonds Payable from Ad Valorem Property Taxes.* The 2022 Bonds are general obligations of the City, and the City Council has the power to direct the County to levy ad valorem taxes upon all property within the City subject to taxation without limitation of rate or amount, for the payment of the 2022 Bonds and the interest thereon. Under the Bond Resolution, the City directs the County to levy on all the taxable property in the City, in addition to all other taxes, a continuing direct and ad valorem tax annually during the period the 2022 Bonds are Outstanding in an amount sufficient to pay the principal of and interest on the 2022 Bonds when due, without limitation of rate or amount (except certain personal property which is taxable at limited rates).

*Levy and Collection.* The City has covenanted to direct the County to levy such ad valorem taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service. Such taxes,



when collected, will be deposited into a debt service fund for the 2022 Bonds, which is maintained by the City and which is irrevocably pledged for the payment of principal of and interest on the 2022 Bonds when due. See “-Debt Service Fund” below.

Property taxes within the City are assessed and collected by the County in the same manner and at the same time, and in the same installments as other ad valorem taxes on real property, and will have the same priority, become delinquent at the same times and in the same proportionate amounts, and bear the same proportionate penalties and interest after delinquency, as do the other ad valorem taxes on real property. The City has elected not to participate in the County Teeter Plan. See “PROPERTY TAXATION – Tax Levies and Delinquencies.”

*Annual Tax Rates.* The amount of the annual ad valorem tax levied by the County, as directed by the City, to repay the 2022 Bonds will be determined by the relationship between the assessed valuation of taxable property in the City and the amount of debt service due on the 2022 Bonds. Fluctuations in the annual debt service on the 2022 Bonds and the assessed value of taxable property in the City may cause the annual tax rate to fluctuate.

Natural, economic and other factors both within and out of the City’s control, such as economic recession, deflation of land values, a relocation out of the City or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood or other natural disaster, could cause a reduction in the assessed value within the City and necessitate a corresponding increase in the annual tax rate. For additional discussion, see “CERTAIN RISK FACTORS” below.

### **Debt Service Fund**

The City will establish the Debt Service Fund (the “Debt Service Fund”), which will be established as a separate fund to be maintained distinct from all other funds of the City. All taxes levied by the County, as directed by the City, pursuant to the Bond Resolution for the payment of the principal of and interest and premium (if any) on the 2022 Bonds will be deposited in the Debt Service Fund held by the City promptly upon the receipt by the City from the County. The Debt Service Fund is pledged for the payment of the principal of and interest and premium (if any) on the 2022 Bonds when and as the same become due. The City will transfer amounts in the Debt Service Fund, to the extent necessary to pay the principal of and interest on the 2022 Bonds as the same become due and payable, to the Paying Agent as required to pay the principal of and interest and premium (if any) on the 2022 Bonds.

If, after payment in full of the 2022 Bonds, any amounts remain on deposit in the Debt Service Fund, the City shall transfer such amounts to its General Fund, to be applied solely in a manner which is consistent with the requirements of applicable state and federal tax law.

### **Statutory Lien**

In accordance with Section 53515 of the California Government Code, the 2022 Bonds are secured by a statutory lien on all revenues received pursuant to the levy and collection of the ad valorem tax. This lien automatically arises without the need for any action or authorization by the City or the City Council, and shall be valid and binding from the time the 2022 Bonds are executed and delivered. The revenues received pursuant to the levy and collection of the ad valorem tax shall be immediately subject to the lien, and the lien shall immediately attach to the revenues and be effective, binding, and enforceable against the

City, its successors, transferees, and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for any physical delivery, recordation, filing, or further act.

### **PAYING AGENT**

U.S. Bank Trust Company, National Association will act as the transfer agent, bond registrar, authenticating agent and paying agent for the 2022 Bonds (the “Paying Agent”). As long as DTC is the registered owner of the 2022 Bonds and DTC’s book-entry method is used for the 2022 Bonds, the Paying Agent will send any notice of redemption or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the redemption of the 2022 Bonds called for redemption or of any other action premised on such notice.

The Paying Agent and the City, the County have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests for the 2022 Bonds.

### **BOOK-ENTRY ONLY SYSTEM**

The Depository Trust Company, New York, New York, will act as securities depository for the 2022 Bonds. The 2022 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. See APPENDIX G—BOOK-ENTRY SYSTEM.

### **THE CITY**

The City is located approximately 35 miles south of the City of San Francisco. The City was incorporated in 1894. Its first Charter was granted by the State in 1909 and the City continues to operate as a charter city. Located between the cities of San Francisco and San Jose, the City is a largely built-out community. The City covers an area of twenty-six square miles and has dedicated almost one-half of the area to open spaces of parks and wildlife preserves. The City’s public facilities include five libraries, four community centers, a cultural arts center, an adult and children’s theater, a junior museum and zoo, and a golf course. The City shares its borders with East Palo Alto, Mountain View, Los Altos, Los Altos Hills, Stanford, Portola Valley, and Menlo Park. The City’s current population is approximately 68,000.

Stanford University covers a 700-acre area in the City, and the City is home to high-tech leaders such as SAP America, Varian Medical Systems, VMware, Tibco Software, the Electric Power Research Institute, Communications and Power Industries and Skype. The City is also a major employment center, including U.S. Department of Veterans Affairs, Palo Alto Health Care System, Stanford Hospitals and Clinics, Lockheed Martin Missiles and Space, Palo Alto Medical Foundation, Stanford Shopping Center, the law offices of Wilson Sonsini Goodrich and Rosati, and the Xerox Palo Alto Research Center.

The City is a charter city and is governed by a City Council of seven representatives. City Council members are elected city-wide on an at-large basis for staggered four-year terms. At the first meeting of each calendar year, Council elects a Mayor and Vice-Mayor from its membership, with the Mayor having the

duty of presiding over Council meetings. Council is the appointing authority for the positions of City Manager and three other officials, the City Attorney, City Clerk, and City Auditor, all of whom report to Council.

Members of the Council and key administrative personnel of the City are listed at the front of this Official Statement.

For more complete information concerning the City, including certain financial information, see APPENDIX A—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY and APPENDIX B—CITY FINANCIAL INFORMATION. The City’s audited financial statements for the fiscal year ended June 30, 2021, are included as APPENDIX C—ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2021.

## **PROPERTY TAXATION**

*The information in this section describes ad valorem property taxation, assessed valuation, and other measures of the tax base of the City. The 2022 Bonds are payable solely from ad valorem taxes levied and collected by the County on taxable property in the City. The City’s General Fund is not a source for the repayment of the 2022 Bonds.*

### **Property Taxation Generally**

The City levies property taxes for general operating purposes as well as the payment of voter-approved general obligation bonds. Taxes levied to pay debt service for general obligation bonds may only be applied for that purpose. In general, if overall assessed values of taxable property in the City were to decline, then the City, in order to generate sufficient tax revenues to pay debt service on the 2022 Bonds ,would increase tax rates applicable to the 2022 Bonds.

### **Property Tax Collection Procedures**

In California, property which is subject to ad valorem taxes is classified as “secured” or “unsecured.” The “secured roll” is that part of the assessment roll containing state assessed public utilities’ property and property, the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

Property taxes on the secured roll are due in two installments, on November 1 and August 1 of each fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption

penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

Property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding January 1. A bill enacted in 1983, SB813 (Statutes of 1983, Chapter 498), however, provided for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Thus, this legislation eliminated delays in the realization of increased property taxes from new assessments. As amended, SB813 provided increased revenue to taxing jurisdictions to the extent that supplemental assessments of new construction or changes of ownership occur subsequent to the January 1 lien date and result in increased assessed value.

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A 10% penalty is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1.5% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date.

The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

### **Taxation of State-Assessed Utility Property**

The State Constitution provides that most classes of property owned or used by regulated utilities be assessed by the State Board of Equalization ("SBE") and taxed locally. Property valued by the SBE as an operating unit in a primary function of the utility taxpayer is known as "unitary property," a concept designed to permit assessment of the utility as a going concern rather than assessment of each individual element of real and personal property owned by the utility taxpayer. State-assessed unitary and "operating nonunitary" property (which excludes nonunitary property of regulated railways) is allocated to the counties based on the situs of the various components of the unitary property. Except for unitary property of regulated railways and certain other excepted property, all unitary and operating nonunitary property is taxed at special County-wide rates and tax proceeds are distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year.

### **Assessed Valuation**

*Assessed Valuation.* The assessed valuation of property in the City is established by the County Assessor, except for public utility property which is assessed by the SBE. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIII A of the California Constitution.

Certain classes of property, such as churches, colleges, not-for-profit hospitals and charitable institutions, are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions. Property taxes allocated to the City are collected by the County at the same time and on the same tax rolls as are county and special district taxes. The valuation of secured

property by the County Assessor is established as of January 1 and is subsequently equalized in September of each year.

Future assessed valuation growth allowed under Article XIII A of the State Constitution (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies will share the growth of “base” revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year.

*Assessed Valuation History.* The table below shows the assessed valuation of taxable property in the City for the most recent fiscal years.

**TABLE 1  
CITY OF PALO ALTO  
HISTORIC ASSESSED VALUATIONS**

Fiscal Year	Local Secured	Utility	Unsecured	Total Assessed Valuation	% Change
2011-12	\$20,967,297,668	\$2,572,716	\$1,516,837,280	\$22,486,707,664	n/a
2012-13	22,334,464,145	2,572,716	1,355,969,707	23,693,006,568	5.36%
2013-14	24,039,563,713	2,572,716	1,493,921,967	25,536,058,396	7.78
2014-15	25,572,917,948	2,572,716	1,622,636,368	27,198,127,032	6.51
2015-16	27,618,260,149	2,572,716	1,794,920,762	29,415,753,627	8.15
2016-17	30,148,340,720	2,572,716	1,803,467,979	31,954,381,415	8.63
2017-18	32,509,995,986	2,572,716	1,922,170,300	34,434,739,002	7.76
2018-19	34,891,627,511	7,004,400	1,902,781,228	36,801,413,139	6.87
2019-20	37,331,775,663	7,004,400	1,946,679,944	39,285,460,007	6.75
2020-21	40,152,306,303	7,004,400	2,194,615,259	42,353,925,962	7.81
2021-22	41,743,865,568	7,004,400	2,232,482,077	43,983,352,045	3.85

Source: California Municipal Statistics, Inc.

Assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the City’s control, such as a general market decline in property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year.

*Appeals of Assessed Valuation; Blanket Reductions of Assessed Values.* There are two basic types of property tax assessment appeals provided for under State law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the assessor immediately subsequent to an instance of a change in ownership or completion of new construction. If the base year value assigned by the assessor is reduced, the valuation of the property cannot increase in subsequent years more than 2% annually unless and until another change in ownership and/or additional new construction activity occurs.

The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner's property by filing a written application, in the form prescribed by the SBE, with the appropriate county board of equalization or assessment appeals board. A property owner desiring a Proposition 8 reduction of the assessed value of such owner's property in any one year must apply to the county assessment appeals board (the "Appeals Board"). Following a review of the application by the county assessor's office, the county assessor may offer to the property owner the opportunity to stipulate to a reduced assessment or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

In addition to the above-described taxpayer appeals, county assessors may independently reduce assessed valuations based on changes in the market value of property, or for other factors such as the complete or partial destruction of taxable property caused by natural or man-made disasters such as earthquakes, floods, fire, drought or toxic contamination pursuant to relevant provisions of the State Constitution.

In addition, Article XIII A of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis.

The City typically experiences increases in assessment appeals activity during economic downturns and decreases in assessment appeals as the economy rebounds.

*Risk of Decline in Property Values; Fire; Earthquake Risk.* Property values could be reduced by factors beyond the City's control, including fire, earthquake and a depressed real estate market due to general economic conditions in the County, the region and the State.

Other possible causes for a reduction in assessed values include the complete or partial destruction of taxable property caused by other natural or manmade disasters, such as flood, fire, drought, toxic dumping, acts of terrorism, etc., or reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes).

No assurance can be given that property tax appeals and/or blanket reductions of assessed property values will not significantly reduce the assessed valuation of property within the City in the future. For additional discussion, see "CERTAIN RISK FACTORS."

*Assessed Valuation by Land Use.* The following table gives a distribution of taxable real property located in the City by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**TABLE 2**  
**CITY OF PALO ALTO**  
**ASSESSED VALUATION AND PARCELS BY LAND USE**

	FY2021-22 Assessed Valuation <sup>(1)</sup>	% of Total	No. of Parcels	% of Total
<u>Non-Residential:</u>				
Agricultural/Forest	\$ 38,144,744	0.09%	49	.23%
Commercial	2,311,401,779	5.54	460	2.19
Professional/Office	6,546,290,199	15.68	562	2.68
Industrial/Research & Development	2,339,223,961	5.60	230	1.10
Recreational	68,559,232	0.16	14	.07
Government/Social/Institutional	40,361,772	0.10	119	.57
Miscellaneous	8,441,040	0.02	19	.09
Subtotal Non-Residential	11,352,422,727	27.20	1,453	6.93
<u>Residential:</u>				
Single Family Residence	24,897,037,849	59.64	15,188	72.40
Condominium/Townhouse	2,900,176,661	6.95	3,156	15.05
Mobile Home	120,444	0.00	8	.04
2-4 Residential Units	603,513,001	1.45	497	2.37
5+ Residential Units/Apartments	1,773,572,738	4.25	346	1.65
Subtotal Residential	30,174,420,693	72.28	19,195	91.50
Vacant Parcels	217,022,148	0.52	329	1.57
Total	\$41,743,865,568	100.00%	20,9727	100.00%

Source: California Municipal Statistics, Inc.

(1) Total secured assessed valuation, excluding tax-exempt property.

*Assessed Valuation of Single-Family Homes.* The following table focuses on single-family residential properties only, which comprise approximately 72.4% of the assessed value of taxable property in the City.

**TABLE 3**  
**CITY OF PALO ALTO**  
**PER PARCEL - ASSESSED VALUATION OF SINGLE-FAMILY HOMES**

	No. of Parcels	FY2021-22 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	15,115	\$ 24,897,037,849	\$ 1,647,174	\$ 1,166,660

FY2021-22 Assessed Valuation	No. of Parcels <sup>(1)</sup>	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$199,999	2,271	15.025%	15.025%	\$ 276,277,479	1.110%	1.110%
\$200,000 - \$399,999	1,336	8.839	23.864	394,435,821	1.584	2.694
\$400,000 - \$599,999	1,096	7.251	31.115	550,350,000	2.211	4.904
\$600,000 - \$799,999	1,102	7.291	38.406	767,133,798	3.081	7.986
\$800,000 - \$999,999	935	6.186	44.591	843,257,652	3.387	11.373
\$1,000,000 - \$1,199,999	981	6.490	51.082	1,075,650,158	4.320	15.693
\$1,200,000 - \$1,399,999	767	5.074	56.156	992,045,086	3.985	19.678
\$1,400,000 - \$1,599,999	752	4.975	61.131	1,124,935,157	4.518	24.196
\$1,600,000 - \$1,799,999	696	4.605	65.736	1,182,734,029	4.751	28.946
\$1,800,000 - \$1,999,999	574	3.798	69.534	1,090,034,969	4.378	33.325
\$2,000,000 - \$2,199,999	509	3.368	72.901	1,065,876,882	4.281	37.606
\$2,200,000 - \$2,399,999	459	3.037	75.938	1,054,350,224	4.235	41.841
\$2,400,000 - \$2,599,999	472	3.123	79.061	1,177,587,290	4.730	46.570
\$2,600,000 - \$2,799,999	476	3.149	82.210	1,284,583,642	5.160	51.730
\$2,800,000 - \$2,999,999	380	2.514	84.724	1,101,428,927	4.424	56.154
\$3,000,000 - \$3,199,999	341	2.256	86.980	1,054,947,701	4.237	60.391
\$3,200,000 - \$3,399,999	284	1.879	88.859	936,318,727	3.761	64.152
\$3,400,000 - \$3,599,999	211	1.396	90.255	737,732,583	2.963	67.115
\$3,600,000 - \$3,799,999	188	1.244	91.499	694,817,993	2.791	69.906
\$3,800,000 - \$3,999,999	168	1.111	92.610	654,847,649	2.630	72.536
\$4,000,000 and greater	1,117	7.390	100.000	6,837,692,082	27.464	100.000
Total	15,115	100.000%		\$24,897,037,849	100.000%	

Source: California Municipal Statistics, Inc.

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

*Principal Taxpayers.* In general, the more property (by assessed value) owned by any single assessee, the more exposure property tax collections have to weakness in that taxpayer's financial situation and ability or that taxpayer's willingness to pay property taxes. Based on Fiscal Year 2021-22 locally assessed taxable valuations, the top twenty taxable property owners in the City represent approximately 21.0% of the total Fiscal Year 2021-22 taxable value.



The following table shows the 20 largest owners of taxable property in the City as determined by secured assessed valuation in Fiscal Year 2021-22.

**TABLE 4  
CITY OF PALO ALTO  
LARGEST LOCAL SECURED PROPERTY TAXPAYERS**

	Property Owner	Primary Land Use	FY2021-22 Assessed Valuation	% of Total <sup>(1)</sup>
1.	Board of Trustees Leland Stanford Jr. University	Various Land Uses	\$6,650,707,376 <sup>(2)</sup>	15.93%
2.	Google Inc.	Industrial/Office	324,307,837	0.78
3.	ARE-San Francisco 80 LLC	Industrial	294,014,758	0.70
4.	ARE-San Francisco 69 LLC	Office Building	142,960,280	0.34
5.	395 Page Mill LLC	Office Building	124,357,864	0.30
6.	SVF Sherman Palo Alto Corporation	Office Building	120,500,000	0.29
7.	Hohbach Realty Co. LP	Apartments	111,535,894	0.27
8.	KRE El Camino Real Owner LLC	Office Building	103,600,000	0.25
9.	PA Hotel Holdings LLC	Hotel	92,275,077	0.22
10.	530 Lytton Owner LLC	Office Building	91,500,000	0.22
11.	Palo Alto Tech Center LLC	Office Building	86,018,514	0.21
12.	Gwin Property Inc.	Office Building	82,559,560	0.20
13.	SI 45 LLC	Office Building	80,735,316	0.19
14.	BVK Hamilton Ave. LLC	Office Building	76,934,719	0.18
15.	M10 Dev LLC	Hotel	70,455,423	0.17
16.	Ronald & Ann Williams	Shopping Center	69,600,610	0.17
17.	GPCA Owner LLC	Apartments	68,429,235	0.16
18.	PPC Forest Towers LLC	Apartments	62,839,402	0.15
19.	130 Lytton Owner LLC	Office Building	60,022,946	0.14
20.	2747 Park PA LLC	Office Building	57,675,001	0.14
	Total Top 20		<u>\$8,771,029,812</u>	<u>21.01%</u>

Source: California Municipal Statistics, Inc.

(1) FY2021-22 Local Secured Assessed Valuation: \$41,743,865,568.

(2) Net taxable value.

*Tax Levies and Delinquencies.* Beginning in 1978-79, Article XIII A and its implementing legislation shifted the function of property taxation primarily to the counties, except for levies to support prior-voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

The following table sets forth the secured tax charges and delinquencies for the most recent fiscal years.

**TABLE 5**  
**CITY OF PALO ALTO**  
**SECURED TAX CHARGES AND DELINQUENCIES**

Fiscal Year	Secured Tax Charge <sup>(1)</sup>	Amt. Del. June 30	% Del. June 30
2010-11	\$3,443,434.30	\$29,254.95	0.85%
2011-12	3,208,610.90	21,029.74	0.66
2012-13	<i>Not available</i>		
2013-14	4,304,606.92	33,648.91	0.78
2014-15	4,122,948.88	44,016.83	1.07
2015-16	4,112,476.21	67,220.43	1.63
2016-17	3,895,321.53	47,443.37	1.22
2017-18	3,806,759.16	11,434.14	0.30
2018-19	3,844,666.46	26,401.65	0.69
2019-20	3,972,942.77	15,960.60	0.40
2020-21	3,813,649.97	28,528.14	0.75

Source: California Municipal Statistics, Inc.

(1) 1% General Fund apportionment

*Teeter Plan.* The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in section 4701 et seq. of the California Revenue and Taxation Code. The Teeter Plan guarantees distribution of 100% of the general taxes levied to the taxing entities within the County, with the County retaining all penalties and interest penalties affixed upon delinquent properties and redemptions of subsequent collections. Under the Teeter Plan, the County apportions secured property taxes on a cash basis to local political subdivisions, including the City, for which the County acts as the tax-levying or tax-collecting agency. At the conclusion of each fiscal year, the County distributes 100% of any taxes delinquent as of June 30th to the respective taxing entities.

The County cash position is protected by a special fund, known as the “Tax Loss Reserve Fund,” which accumulates moneys from interest and penalty collections. In each fiscal year, the Tax Loss Reserve Fund is required to be funded to the amount of delinquent taxes plus one percent of that year’s tax levy. Amounts exceeding the amount required to be maintained in the tax loss reserve fund may be credited to the County’s general fund. Amounts required to be maintained in the tax loss reserve fund may be drawn on to the extent of the amount of uncollected taxes credited to each agency in advance of receipt.

The Teeter Plan is to remain in effect unless the County Board orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the County Board receives a petition for its discontinuance joined in by resolutions adopted by at least two-thirds of the participating revenue districts in the County, in which event the County Board is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. The County Board may also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll in that agency. If the Teeter Plan is discontinued subsequent to its implementation, only those secured property taxes actually

collected would be allocated to political subdivisions (including the City) for which the County acts as the tax-levying or tax-collecting agency, but penalties and interest would be credited to the political subdivisions.

The City is not aware of any petitions for the discontinuance of the Teeter Plan in the County.

*Direct and Overlapping Debt.* Set forth below is a direct and overlapping debt report (the “Debt Report”) prepared by California Municipal Statistics, Inc. and effective March 1, 2022. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the City; (2) the second column shows the percentage that the City’s assessed valuation represents of the total assessed valuation of each public agency identified in the first column; and (3) the third column is an apportionment of the dollar amount of each public agency’s outstanding debt to property in the City, as determined by multiplying the total outstanding debt of each agency by the percentage of the City’s assessed valuation represented in the second column.

**TABLE 6**  
**CITY OF PALO ALTO**  
**STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT**  
**(as of March 1, 2022)**

CITY OF PALO ALTO

2021-22 Assessed Valuation: \$43,983,352,045

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 3/1/22</u>
Santa Clara County	7.632%	\$ 87,497,827
Foothill-De Anza Community College District	21.622	142,246,451
Palo Alto Unified School District	90.013	188,315,935
Fremont Union High School District	.009	52,449
Los Gatos-Saratoga Joint Union High School District	.013	10,924
Mountain View-Los Altos Union High School District	.827	1,579,629
Cupertino Union School District	.016	43,483
Los Altos School District	1.114	1,623,711
Mountain View-Whisman School District	.587	1,591,915
Saratoga Union School District	.029	5,001
Whisman School District	1.478	86,245
<b>City of Palo Alto</b>	<b>100.000</b>	<b>55,135,000<sup>(1)</sup></b>
El Camino Hospital District	.070	77,868
Midpeninsula Regional Open Space District	12.443	10,523,667
City of Palo Alto Special Assessment Bonds	100.000	16,315,000
Santa Clara Valley Water District Benefit Assessment District	7.632	<u>3,674,808</u>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>508,779,913</b>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Santa Clara County General Fund Obligations	7.632%	95,102,304
Santa Clara County Pension Obligation Bonds	7.632	25,615,928
Santa Clara County Board of Education Certificates of Participation	7.632	203,774
Foothill-DeAnza Community College District Certificates of Participation	21.622	4,775,219
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	.013	145
Mountain View-Los Altos Union High School District Certificates of Participation	.827	17,818
Los Altos School District Certificates of Participation	1.114	19,702
Saratoga Union School District Certificates of Participation	.029	677
<b>City of Palo Alto General Fund Obligations</b>	<b>100.000</b>	<b>145,605,000</b>
Santa Clara County Vector Control District Certificates of Participation	7.632	134,705
Midpeninsula Regional Open Space Park District General Fund Obligations	12.443	<u>12,406,368</u>
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>283,881,640</b>
Less: Santa Clara County supported obligations		<u>1,379,771</u>
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>282,501,869</b>
 <b>GROSS COMBINED TOTAL DEBT</b>		<b>792,661,553<sup>(2)</sup></b>
<b>NET COMBINED TOTAL DEBT</b>		<b>791,281,782</b>

Ratios to 2021-22 Assessed Valuation:

<b>Direct Debt (\$55,135,000)</b> .....	<b>0.13%</b>
Direct and Overlapping Tax and Assessment Debt .....	1.16%
<b>Total Direct Debt (\$200,740,000)</b> .....	<b>0.46%</b>
Gross Combined Total Debt .....	1.80%
Net Combined Total Debt .....	1.80%

Source: California Municipal Statistics, Inc.

(1) Excludes issue to be sold.

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

## **Bonding Capacity**

The City may issue bonds in an amount up to 3.75% of the assessed valuation of taxable property within its boundaries. Based on the fiscal year 2021-22 assessment roll, the City's gross bonding capacity is approximately \$1,649,375,702, and its net bonding capacity is \$1,594,240,702 (taking into account current outstanding debt including the Prior Bonds). Refunding bonds may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the City's bonding capacity.

## **CERTAIN RISK FACTORS**

*The following information should be considered by prospective investors in evaluating the 2022 Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the 2022 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.*

*The 2022 Bonds are payable from and secured by a voter-approved property tax levy on all taxable property within the City. The City is not obligated to pay the debt service on the 2022 Bonds from any other sources. This official statement, including Appendix B hereto, provides information on the City's overall operations and financings with an emphasis on its General Fund and therefore includes information on revenues and funds that are not pledged to the 2022 Bonds and should not be considered available to pay debt service on the 2022 Bonds.*

## **Risks to Assessed Values Generally**

Natural and economic forces can affect the assessed value of taxable property in the City. The City is located in a seismically active region, and damage from an earthquake in or near the City could cause moderate to extensive or total damage to taxable property. Other natural or man-made disasters, such as flood and sea level rise, fire, the presence of hazardous materials, acts of terrorism or public health emergencies could also cause a reduction in the assessed value of taxable property within the City. Economic and market forces, such as a downturn in the local economy can also affect assessed values. For additional discussion, see "Natural Calamities," "Limitations on Development," and "Risk of Changing Economic Conditions" below.

### **Natural Calamities**

*General.* From time to time, the City has been and could be subject to natural calamities, including, but not limited to, earthquake, flood or wildfire, that may adversely affect economic activity in the City, and which could have a negative impact on the City's finances and on the taxable assessed values of property located within the City.

*Seismic.* Like most regions in California, the City is located in an area of significant seismic activity. There are numerous earthquake faults near the City, including particularly the San Andreas and Hayward faults. The San Andreas fault runs along the Marin and Sonoma Coast through the Santa Cruz Mountains. The Hayward fault covers the hills on the east side of the San Francisco Bay and into San Pablo Bay, directly north and east of the City. Both can cause damaging earthquakes. Numerous other faults can produce damaging earthquakes similar in magnitude to the 1989 Loma Prieta earthquake. Soils in lowland areas away from major faults may also be unable to support buildings during major earthquakes. Landslides are likely

on hillsides during major earthquakes. Coastal areas are also at risk of tsunamis, generated from earthquakes on local faults or across the Pacific.

If there were to be an occurrence of severe seismic activity in the City, the damage resulting from such an event could have a material adverse effect on the City's financial condition and on the valuation of taxable property located within the City.

*Drought.* The State is currently experiencing drought conditions. The Governor of the State has issued targeted emergency drought proclamations to nearly all counties across the State, including the County. The emergency drought proclamations allow for the set-aside of certain state regulatory requirements until the subsistence of drought conditions. The City and the County are presently experiencing drought conditions and are likely to continue to be effected by drought conditions in the future. Lasting drought conditions could have a material negative effect on the value of taxable property within the City.

*Wildfire.* In recent years, wildfires have caused extensive damage to cities throughout the State. In some instances, entire neighborhoods have been destroyed. Areas effected by wildfires may be more prone to flooding and mudslides. In addition to the direct impact of wildfires on health and safety and property damage, the smoke from wildfires has negatively impacted the quality of life in the City and may have short-term and future impacts on residential and commercial activity in the City.

Recent wildfires in the State have been driven in large measure by drought conditions and low humidity. Experts expect that California will continue to be subject to wildfire conditions as a result in changing weather patterns due to climate change.

While the City is not in a wildfire severity zone and the City believes the possibility of wildfire damage to taxable property within the City is low, there can be no assurances that wildfires will not occur within the City or the region or that the City will not be negatively impacted by sustained smoky conditions caused by wildfires. Damage resulting from such an event could have a material adverse effect on the City's financial condition and on the value of taxable property within the City.

*Climate Change/Sea Level Rise.* Climate change caused by human activities may have adverse effects on the City and its finances. Climate change can also result in more variable weather patterns throughout the State, rising bay water levels, increased risk of flooding, changes in salinity and tidal patterns of San Francisco Bay, coastal erosion, drought, water restrictions and vegetation changes. Portions of the City are located adjacent to the San Francisco Bay and may be negatively impacted by these and other results of climate change. The City considers the potential effects of climate change in its planning.

The State of California anticipates that relative sea level rise projections stemming from greenhouse gas emissions and related climate change pose significant economic, environmental and social risks to communities along the San Francisco Bay Shoreline, including the City. Research shows that these projections may worsen if greenhouse gas emission trajectories continue unabated. Greenhouse gases and thermal expansion are the primary cause of Antarctic and Greenland ice melt which in turn are the primary source of sea level rise globally and in San Francisco Bay. San Francisco Bay sea level rise projections range between 1-3' in 2050, and 3.4' to more than 10' in 2100.

To prepare for rising tides in the years ahead, the City Council of the City adopted a Sea Level Rise Adaptation Policy in March, 2019 which bridges the high-altitude general policy statements in various City

plans (such as the Comprehensive Plan and sea level rise components of the Sustainability and Climate Action Plan) to an eventual nuts-and-bolt Sea Level Rise Adaptation Plan and timeline which staff aims to complete in 2022. When complete, the City's Sea Level Rise Vulnerability Assessment will be available on the City's website at <https://www.cityofpaloalto.org/Departments/Public-Works/Watershed-Protection/Sea-Level-Rise>. Such website is not incorporated herein by this reference.

*Sustainability and Climate Action Plan.* The City recognizes that the best way to avoid long-term impacts from the worst Sea Level Rise predictions and to minimize adaption response costs is to reduce greenhouse gas ("GHG") contributions locally and to support regional, state and national initiatives that reduce GHGs. In early 2020, the City launched an update to the Sustainability and Climate Action Plan ("S/CAP") to develop the strategies needed to meet its sustainability goals, including our goal of reducing GHG emissions 80 percent below 1990 levels by 2030 (the "80 x 30" goal). More generally, the City's S/CAP aims to reduce the City and community's greenhouse gas emissions to meet climate protection goals while considering the broader issues of sustainability, such as land use and natural resources. The City's S/CAP can be found on the City's website at <https://www.cityofpaloalto.org/City-Hall/Sustainability/SCAP>. Such website is not incorporated herein by this reference.

### **Risk of Changing Economic Conditions**

While the City has historically enjoyed strong economic and financial performance, the City faces several long-term financial challenges including climate change and sea level rise, changes to the economy of the region and the nation, and the management of pension and post-employment retirement obligations. While the City has adopted measures and policies to better position its operating budgets for future risks and future economic downturns, such measures may not be sufficient. Property values could be reduced by factors beyond the City's control, including a depressed real estate market due to general economic conditions in the County, the region, and the State.

The general economy of the City is also subject to the types of risks generally associated with all urban real estate markets. Real estate prices may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in home improvement costs and by other similar factors. In addition, if there is a significant decline in the general economy of the City, the owners of property within the City may be less able or less willing to make timely payments of property taxes or may petition for reduced assessed valuation causing a delay or interruption in the receipt of property tax revenues by the City.

### **Public Health Emergencies**

The COVID-19 Pandemic is ongoing, and its duration and severity and economic effects are uncertain in many respects and difficult to forecast. The ultimate impacts of the COVID-19 Pandemic on the City's operations and financings and on the local economy, real estate market and development within the City is not fully known, and it may be some time before the full adverse impact of the COVID-19 Pandemic is known. Further, there could be future outbreaks of other COVID-19 variants or other public health emergencies that could have material adverse effects on the City's operations and finances.

### **Bankruptcy Risks**

In bankruptcy, the voluntary application of pledged special revenues to indebtedness secured by such revenues is not subject to the automatic stay. A recent decision by the United States Court of Appeals

for the First Circuit in a case involving revenue bonds of the Puerto Rico Highways & Transportation Authority, however, concludes that an action by bondholders to compel the application of pledged special revenues is not exempt from the automatic stay. See “LEGAL MATTERS” below.

### **Cybersecurity Risks**

The City and the County may each face various cyber security threats, including, but not limited to, hacking, viruses, malware, ransomware and other attacks on their computers and their networks. No assurance can be given that the City’s or County’s efforts to manage cyber threats and attacks will be successful in all cases, or that any such attack will not materially impact the operations or finances of the City or the County.

The City owns and operates its own enterprise class data network serving the municipal city government and its operations. The City has retained information technology professionals to support, maintain and protect these operations locally in a purpose-built and physically secure environment. This network and its operations are governed by and in compliance with all applicable governmental regulations as well as the City’s own administrative regulations. Within the City’s operations and guidance is an active cyber-security program designed to protect from, and to quickly identify and mitigate, a multitude of complex security threats. While no network is completely immune from all possible compromise, the City exercises its due diligence in protecting the data it possesses and the systems it operates. To date, there have been no significant cyber-attacks on the City’s computers and technologies.

The City is reliant on the County in connection with the administration of the 2022 Bonds, including without limitation the County’s tax collectors for the levy and collection of *ad valorem* taxes, and the Paying Agent. No assurance can be given that the City, the County, and these other entities will not be adversely affected by cyber threats and attacks in a manner that may affect owners of the 2022 Bonds.

## **CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS**

Principal of and interest on the 2022 Bonds are payable from the proceeds of an ad valorem tax levied by the County, as directed by the City, for the payment thereof. See “THE REFUNDING BONDS” and “SECURITY FOR THE REFUNDING BONDS” above. Articles XIII A, XIII B, XIII C and XIII D of the State Constitution, Propositions 62, 111, and 218 and 1A, and certain other provisions of law discussed below are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the County to levy, and the City to spend, tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the County to levy taxes for payment of the 2022 Bonds. The tax levied by the County, as directed by the City, for payment of the 2022 Bonds was approved by the City’s voters in compliance with Article XIII A and all applicable laws.

### **Article XIII A of the State Constitution**

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the State Constitution. Article XIII A, as amended, limits the amount of any ad valorem tax on real property to one percent of the full cash value thereof, except that additional ad valorem taxes may be levied to pay



debt service (i) on indebtedness approved by the voters prior to July 1, 1978, (ii) on bonded indebtedness approved by a two-thirds vote on or after July 1, 1978, for the acquisition or improvement of real property or (iii) bonded indebtedness incurred by a school district, community college district or county office of education for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities, approved by 55 percent of the voters voting on the proposition. Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value,’ or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster, and in other minor or technical ways.

### **Legislation Implementing Article XIII A**

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100 percent of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

## **Article XIII B of the State Constitution**

In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual “appropriations limit” imposed by Article XIII B which effectively limits the amount of such revenues those entities are permitted to spend. Article XIII B, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to “proceeds of taxes,” which consist of tax revenues, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service.” “Proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds. Article XIII B also does not limit appropriation of local revenues to pay debt service on Bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in case of emergency; however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Proposition 111 requires that each agency’s actual appropriations be tested against its limit every two years.

If the aggregate “proceeds of taxes” for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency’s taxpayers through tax rate or fee reductions over the following two years.

The City has never exceeded its appropriations limit.

## **Articles XIII C and XIII D of the State Constitution**

*General.* On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 adds Articles XIII C and XIII D to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

On November 2, 2010, California voters approved Proposition 26, entitled the “Supermajority Vote to Pass New Taxes and Fees Act.” Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. The amendments to Article XIII C define “taxes” that are subject to voter approval as “any levy, charge, or exaction of any kind imposed by a local government,” with certain exceptions.

*Taxes.* Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City (“general taxes”) require a majority vote; taxes for specific purposes (“special taxes”), even if deposited in the City’s General Fund, require a two-thirds vote.

*Property-Related Fees and Charges.* Article XIII D also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs.

*Reduction or Repeal of Taxes, Assessments, Fees and Charges.* Article XIII C also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City’s General Fund. If such repeal or reduction occurs, the City’s ability to pay debt service on the 2022 Bonds could be adversely affected.

*Burden of Proof.* Article XIII C provides that local government “bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.” Similarly, Article XIII D provides that in “any legal action contesting the validity of a fee or charge, the burden shall be on the agency to demonstrate compliance” with Article XIII D.

*Judicial Interpretation of Proposition 218.* The interpretation and application of Articles XIII C and XIII D will ultimately be determined by the courts, and it is not possible at this time to predict with certainty the outcome of such determination.

## **Proposition 62**

Proposition 62 was adopted by the voters at the November 4, 1986, general election and (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the City be approved by a two-thirds vote of the governmental entity’s legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

California appellate court cases have overturned the provisions of Proposition 62 pertaining to the imposition of taxes for general government purposes. However, the California Supreme Court upheld Proposition 62 in its decision on August 28, 1995, in *Fresno County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62

were not addressed in the Supreme Court’s decision, such as what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities. The City has not experienced any substantive adverse financial impact as a result of the passage of this initiative.

### **Proposition 1A; Proposition 22**

*Proposition 1A.* Proposition 1A, proposed by the Legislature in connection with the State’s Fiscal Year 2004-05 Budget, approved by the voters in November 2004 and generally effective in Fiscal Year 2006-07, provided that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibited the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any Fiscal Year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county had to be approved by two-thirds of both houses of the Legislature.

*Proposition 22.* Proposition 22, entitled “The Local Taxpayer, Public Safety and Transportation Protection Act,” was approved by the voters of the State in November 2010. Proposition 22 eliminates or reduces the State’s authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

### **Proposition 19**

Proposition 19, entitled “Property Tax Transfers, Exemptions, and Revenue for Wildfire Agencies and Counties Amendment,” was approved by the voters of the State in November 2020. Proposition 19 amends Article XIII A to: (i) expand special rules that give property tax savings to homeowners that are over the age of 55, severely disabled, or whose property has been impacted by wildfire or natural disaster, when they buy a different home; (ii) narrow existing special rules for inherited properties; and (iii) dedicate most of the potential new State revenue generated from Proposition 19 toward fire protection.

The City cannot predict the impact that Proposition 19 might have on assessed values or property tax revenues in the City, or any other impacts on the local economy or the City’s financial condition.

### **Possible Future Initiatives**

Articles XIII A, XIII B, XIII C and XIII D and Propositions 62, 111, 218 and 1A were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City’s ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

## LEGAL MATTERS

### Possible Limitations on Remedies; Bankruptcy

*General.* Following is a discussion of certain considerations relating to potential bankruptcies of school districts in California. It is not an exhaustive discussion of the potential application of bankruptcy law to the City. State law contains a number of safeguards to protect the financial solvency of school districts. See “APPENDIX B—CITY FINANCIAL INFORMATION.” If the safeguards are not successful in preventing a school district from becoming insolvent, the State Superintendent of Public Instruction (the “State Superintendent”), operating through an administrator appointed by the State Superintendent, may be authorized under State law to file a petition under Chapter 9 of the United States Bankruptcy Code (the “Bankruptcy Code”) on behalf of a district for the adjustment of its debts, assuming that such district meets certain other requirements contained in the Bankruptcy Code necessary for filing such a petition. School districts under current State law are not themselves authorized to file a bankruptcy proceeding, and they are not subject to involuntary bankruptcy.

Bankruptcy courts are courts of equity and as such have broad discretionary powers. If the City were to become the debtor in a proceeding under Chapter 9 of the Bankruptcy Code, the parties to the proceedings may be prohibited from taking any action to collect any amount from the City (including ad valorem tax revenues) or to enforce any obligation of the City, without the bankruptcy court’s permission. In such a proceeding, as part of its plan of adjustment in bankruptcy, the City may be able to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the 2022 Bonds and other transaction documents related to the 2022 Bonds, if the bankruptcy court were to determine that the alterations were fair and equitable. In addition, in such a proceeding, as part of such a plan, the City may be able to eliminate the obligation of the County to raise taxes if necessary, to pay the 2022 Bonds. There also may be other possible effects of a bankruptcy of the City that could result in delays or reductions in payments on the 2022 Bonds. Moreover, regardless of any specific adverse determinations in any City bankruptcy proceeding, a City bankruptcy proceeding could have an adverse effect on the liquidity and market price of the 2022 Bonds.

As stated above, if a school district were to go into bankruptcy, the bankruptcy petition would be filed under Chapter 9 of the Bankruptcy Code. Chapter 9 provides that it does not limit or impair the power of a state to control, by legislation or otherwise, a municipality of or in such state in the exercise of the political or governmental powers of such municipality, including expenditures for such exercise. For purposes of the language of Chapter 9, a school district is a municipality. State law provides that the ad valorem taxes levied to pay the principal and interest on the 2022 Bonds shall be used for the payment of principal and interest of the City’s general obligation bonds and for no other purpose. If this restriction on the expenditure of such ad valorem taxes is respected in a bankruptcy case, then the ad valorem tax revenue could not be used by the City for any purpose other than to make payments on the 2022 Bonds. It is possible, however, that a bankruptcy court could conclude that the restriction should not be respected.

*Statutory Lien.* Pursuant to Senate Bill 222 (2015) (“SB 222”) that became effective on January 1, 2016, all general obligation bonds issued by local agencies in California, including the 2022 Bonds, will be secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax. SB 222 provides that the lien will automatically arise, without the need for any action or authorization by the local agency or its governing board and will be valid and binding from the time the bonds are executed and delivered. Although a statutory lien would not be automatically terminated by the filing of a Chapter 9

bankruptcy petition by the City, the automatic stay provisions of the Bankruptcy Code would apply and payments that become due and owing on the 2022 Bonds during the pendency of the Chapter 9 proceeding could be delayed unless the 2022 Bonds are determined to be secured by a pledge of “special revenues” within the meaning of the Bankruptcy Code and the pledged ad valorem taxes are applied to pay the 2022 Bonds in a manner consistent with the Bankruptcy Code.

*Special Revenues.* If the ad valorem tax revenues that are pledged to the payment of the 2022 Bonds (see “THE 2022 BONDS – Security”) are determined to be “special revenues” within the meaning of the Bankruptcy Code, then the application in a manner consistent with the Bankruptcy Code of the pledged ad valorem revenues that are collected after the date of the bankruptcy filing should not be subject to the automatic stay. “Special revenues” are defined to include, among others, taxes specifically levied to finance one or more projects or systems of the debtor, but excluding receipts from general property, sales, or income taxes levied to finance the general purposes of the debtor. The City has specifically pledged the ad valorem taxes for payment of the 2022 Bonds. Additionally, the ad valorem taxes levied for payment of the 2022 Bonds are permitted under the State Constitution only where either (i) the applicable bond proposition is approved by 55% of the voters and such proposition contains a specific list of school facilities projects, or (ii) if the applicable bond proposition is approved by two-thirds of voters and such bonds must be issued for the acquisition or improvement of real property. Because State law prohibits the use of the tax proceeds for any purpose other than payment of the bonds and the bond proceeds can only be used to fund the acquisition or improvement of real property and other capital expenditures included in the proposition, such tax revenues appear to fit the definition of special revenues. However, there is no binding judicial precedent dealing with the treatment in bankruptcy proceedings of ad valorem tax revenues collected for the payments of bonds in California, so no assurance can be given that a bankruptcy court would not hold otherwise.

In addition, even if the ad valorem tax revenues are determined to be “special revenues,” the Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. Thus, a bankruptcy court could determine that the City is entitled to use the ad valorem tax revenues to pay necessary operating expenses of the City and its schools, before the remaining revenues are paid to the owners of the 2022 Bonds.

*Possession of Tax Revenues; Remedies.* If one or more of the County or the City go into bankruptcy and have possession of tax revenues (whether collected before or after commencement of the bankruptcy), and if the County or the City, as applicable, does not voluntarily pay such tax revenues to the owners of the 2022 Bonds, it is not clear what procedures the owners of the 2022 Bonds would take or how effective they would be in obtaining possession of such tax revenues.

*Opinion of Bond Counsel Qualified by Reference to Bankruptcy, Insolvency and Other Laws Relating to or Affecting Creditor’s Rights.* The proposed form of opinion of Bond Counsel, attached hereto as Appendix E, is qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditor’s rights.

## **Legal Opinions**

The proceedings in connection with the issuance of the 2022 Bonds are subject to the approval as to their legality of Jones Hall, A Professional Law Corporation, Bond Counsel for the City. Certain legal matters will also be passed upon for the City by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel. The fees of Bond Counsel and Disclosure Counsel are contingent upon the issuance and delivery of the 2022 Bonds.

## TAX MATTERS

### 2022A Bonds

*Federal Tax Status.* In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2022A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Tax Code”) that must be satisfied subsequent to the issuance of the 2022A Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the 2022A Bonds.

*Tax Treatment of Original Issue Discount and Premium.* If the initial offering price to the public at which a 2022A Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public at which a 2022 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “bond premium” for purposes of federal income taxes and State of California personal income taxes.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2022 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2022A Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2022 Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2022A Bonds who purchase the 2022A Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2022A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2022A Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering to the public at the first price at which a substantial amount of such 2022A Bonds is sold to the public.

Under the Tax Code, bond premium is amortized on an annual basis over the term of the 2022 Bond (said term being the shorter of the 2022 Bond’s maturity date or its call date). The amount of bond premium amortized each year reduces the adjusted basis of the owner of the 2022 Bond for purposes of determining taxable gain or loss upon disposition. The amount of bond premium on a 2022 Bond is amortized each year over the term to maturity of the 2022 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates).

Amortized bond premium is not deductible for federal income tax purposes. Owners of premium 2022A Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such 2022A Bonds.

*California Tax Status.* In the further opinion of Bond Counsel, interest on the 2022A Bonds is exempt from California personal income taxes.

The complete text of the final opinion that Bond Counsel expects to deliver upon the issuance of the 2022A Bonds is set forth in APPENDIX E—FORM OF OPINION OF BOND COUNSEL.

## **2022B Bonds**

*Interest on the 2022B Bonds is not excludable from gross income of the owners thereof for federal income tax purposes.*

In the opinion of Bond Counsel, interest on the 2022B Bonds is exempt from California personal income taxes.

The complete text of the final opinion that Bond Counsel expects to deliver upon the issuance of the 2022B Bonds is set forth in APPENDIX E—FORM OF OPINION OF BOND COUNSEL.

## **Other Tax Considerations**

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the 2022A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the 2022A Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the 2022A Bonds, or as to the consequences of owning or receiving interest on the 2022A Bonds, as of any future date. Prospective purchasers of the 2022A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Owners of the 2022A Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2022A Bonds may have federal or state tax consequences other than as described above. Other than as expressly described above, Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the 2022A Bonds, the ownership, sale or disposition of the 2022A Bonds, or the amount, accrual or receipt of interest on the 2022A Bonds.



## **MUNICIPAL ADVISOR**

PFM Financial Advisors LLC, San Francisco, California (“PFM”), is an independent financial advisory firm registered as a “Municipal Advisor” with the Securities Exchange Commission and Municipal Securities Rulemaking Board. PFM does not underwrite, trade or distribute municipal or other public securities. PFM has assisted the City in connection with the planning, structuring, sale and issuance of the 2022 Bonds. PFM is not obligated to undertake, and has not undertaken to make, an independent verification of or to assume responsibilities for the accuracy, completeness or fairness of the information contained in this Official Statement not provided by PFM. The fees of PFM in respect to the 2022 Bonds are contingent upon their sale and delivery.

## **CONTINUING DISCLOSURE**

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”), the City has agreed, for the benefit of holders of the 2022 Bonds, to provide certain financial information and operating data relating to the City and the balances of funds relating to the 2022 Bonds, by not later than March 31 of each year commencing with the report for the 2021-22 fiscal year (the “Annual Information”), and to provide notices of the occurrence of certain enumerated events. The Annual Information and notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board (the “MSRB”), via its Electronic Municipal Market Access (“EMMA”) system. The nature of the information to be provided in the Annual Information and the notices of material events is set forth in APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

For fiscal year 2017-18 the City’s annual report was not properly associated on EMMA with all appropriate CUSIPs. Correcting EMMA filings have been made. Other than as noted, the City has made all required continuing disclosure filings required in the past five years. The City has established internal policies to ensure that all future required filings are made as required.

Substantially all of the City’s required financial information and operating data is included in its Annual Comprehensive Financial Report (the “ACFR”) which is historically filed in advance of the required March 31 deadline.

Any financial information and operating data not included in the Annual Comprehensive Financial Report is compiled by the City’s Treasury staff and its Assistant Administrative Services Director. The City has established a ticker system to provide staff with advance notice so that the reports are prepared in time to allow review and timely filing.

## **LEGALITY FOR INVESTMENT IN CALIFORNIA**

Under provisions of the California Financial Code, the 2022 Bonds are legal investments for commercial banks in California to the extent that the 2022 Bonds, in the informed opinion of the bank, are prudent for the investment of funds of depositors, and under provisions of the California Government Code, are eligible for security for deposits of public moneys in California.

## **ABSENCE OF MATERIAL LITIGATION**

No litigation is pending or threatened concerning the validity of the 2022 Bonds, and a certificate to that effect will be furnished by the City to the purchasers at the time of the original delivery of the 2022 Bonds. The City is not aware of any litigation pending or threatened questioning the political existence of the City or contesting the County's abilities to receive *ad valorem* taxes or contesting the City's ability to issue and retire the 2022 Bonds.

## **RATING**

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P") has assigned the rating of "AAA" to the 2022 Bonds. Such rating reflects only the view of S&P and any desired explanation of the significance of such rating should be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period or that such rating will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price for the 2022 Bonds.

## **UNDERWRITING**

The 2022A Bonds were sold by competitive bidding on May 17, 2022, to \_\_\_\_\_ (the "2022A Underwriter"). The 2022A Underwriter has agreed to purchase the 2022A Bonds at a purchase price of \$\_\_\_\_\_ (being equal to the aggregate principal amount of the 2022A Bonds (\$\_\_\_\_\_), less an underwriter's discount of \$\_\_\_\_\_, plus a premium of \$\_\_\_\_\_). The 2022A Underwriter will purchase all of the 2022A Bonds if any are purchased, the obligation to make such purchase being subject to the approval of certain legal matters by counsel and certain other conditions. The 2022A Underwriter may offer and sell 2022A Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the 2022A Underwriter.

The 2022B Bonds were sold by competitive bidding on May 17, 2022, to \_\_\_\_\_ (the "2022B Underwriter" and, with the 2022A Underwriter, the "Underwriters"). The 2022B Underwriter has agreed to purchase the 2022B Bonds at a purchase price of \$\_\_\_\_\_ (being equal to the aggregate principal amount of the 2022B Bonds (\$\_\_\_\_\_), less an underwriter's discount of \$\_\_\_\_\_). The 2022B Underwriter will purchase all of the 2022B Bonds if any are purchased, the obligation to make such purchase being subject to the approval of certain legal matters by counsel and certain other conditions. The 2022B Underwriter may offer and sell 2022B Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the 2022B Underwriter.

### **ADDITIONAL INFORMATION**

Quotations from and summaries and explanations of the 2022 Bonds, the Resolution, the Continuing Disclosure Certificate of the City and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

All data contained herein has been taken or constructed from City records. Appropriate City officials, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. This Official Statement has been approved by the City Board.

### **EXECUTION**

Execution and delivery of this Official Statement have been duly authorized by the City.

CITY OF PALO ALTO

By \_\_\_\_\_  
Ed Shikada,  
*City Manager*

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## APPENDIX A

### GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY

*The information in this Appendix A concerning the City of Palo Alto and Santa Clara County is included only for the purpose of supplying general information regarding the City and the County. The 2022 Bonds are secured solely by an ad valorem property tax levied by the County, on behalf of the City, in an amount sufficient to pay principal of and interest on the 2022 Bonds each year. The 2022 Bonds are not payable from any other funds or revenues.*

*Although reasonable efforts have been made to include up-to-date information in this Appendix A, some of the information is not current due to delays in reporting of information by various sources. It should not be assumed that the trends indicated by the following data would continue beyond the specific periods reflected herein.*

#### Introduction

*City of Palo Alto.* Palo Alto (the “City”) is located in northern Santa Clara County (the “County”), approximately 35 miles south of the City of San Francisco. It is part of the San Francisco Bay metropolitan area. The City is considered the birthplace of the high technology industry and a center of the Silicon Valley. Stanford University covers a 700-acre area in the City, and the City is home to high-tech leaders such as SAP America, Varian Medical Systems, VMware, Tibco Software, the Electric Power Research Institute, Communications and Power Industries and Skype. The City is also a major employment center, including U.S. Department of Veterans Affairs, Palo Alto Health Care System, Stanford Hospitals and Clinics, Lockheed Martin Missiles and Space, Palo Alto Medical Foundation, Stanford Shopping Center, the law offices of Wilson Sonsini Goodrich and Rosati, and the Xerox Palo Alto Research Center.

*Santa Clara County.* Located at the southern end of the San Francisco Bay, the County is the most populous county in the San Francisco Bay Area region, and one of the most affluent counties in the United States. The County was one of the original counties of California, formed in 1850 at the time of statehood. The County seat is San Jose, the tenth-most populous city in the United States. According to the U.S. Census Bureau, the county has a total area of 1,304 square miles (3,380 km<sup>2</sup>), of which 1,290 square miles (3,300 km<sup>2</sup>) is land and 14 square miles (36 km<sup>2</sup>) (1.1%) is water.

The highly urbanized Santa Clara Valley within the County is also known as Silicon Valley. The County is the headquarters for approximately 6500 high technology companies, including many of the largest tech companies in the world, among them hardware manufacturers AMD, Cisco Systems and Intel, computer and consumer electronics company Apple Inc. and internet companies eBay, Facebook, Google and Yahoo!

## Population

The table below summarizes population of the City, the County, and the State of California for the last five years.

**TABLE A1**  
**CITY OF PALO ALTO, SANTA CLARA COUNTY, and CALIFORNIA**  
**Population**

<u>Year</u>	<u>City of Palo Alto</u>	<u>Santa Clara County</u>	<u>State of California</u>
2017	68,679	1,937,008	39,352,398
2018	68,482	1,943,579	39,519,535
2019	68,272	1,944,733	39,605,361
2020	68,145	1,945,166	39,648,938
2021	67,657	1,934,171	39,466,855

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Source: California Department of Finance, E-4 Population Estimate for Cities, Counties, and the State, 2011-21, with 2010 Census Benchmark.

## Employment

The following table summarizes historical employment and unemployment for the County, the State of California and the United States:

**TABLE A2**  
**SANTA CLARA COUNTY, CALIFORNIA, and UNITED STATES**  
**Civilian Labor Force, Employment, and Unemployment**  
**(Annual Averages)**

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate <sup>(1)</sup>
2016	Santa Clara County	1,026,500	987,900	38,600	3.8%
	California	19,102,700	18,065,000	1,037,700	5.4
	United States	159,187,000	151,436,000	7,751,000	4.9
2017	Santa Clara County	1,042,000	1,008,600	33,400	3.2
	California	19,312,000	18,393,100	918,900	4.8
	United States	160,320,000	153,337,000	6,982,000	4.4
2018	Santa Clara County	1,048,800	1,021,500	27,300	2.6
	California	19,398,200	18,582,800	815,400	4.2
	United States	162,075,000	155,761,000	6,314,000	3.9
2019	Santa Clara County	1,053,700	1,027,500	26,200	2.5
	California	19,411,600	18,627,400	784,200	4.0
	United States	163,539,000	157,538,000	6,001,000	3.7
2020 <sup>(2)</sup>	Santa Clara County	1,020,700	949,400	71,300	7.0
	California	18,821,200	16,913,100	1,908,100	10.1
	United States	160,742,000	147,795,000	12,947,000	8.1

Source: California Employment Development Department, Monthly Labor Force Data for Counties, Annual Average 2010-20, and US Department of Labor.

(1) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures available in this table.

(2) Latest available full-year data.

## Major Industries in the City and the County

The following tables list the ten largest employers in the City and in the County by employment in 2021.

**TABLE A3**  
**CITY OF PALO ALTO**  
**Top 10 Employers**  
**as of June 30, 2021**

Employer	Employees	% of Total City Employment
Stanford Health Care	5,500	4.1%
Hewlett-Packard Company	5,000	3.7
Stanford University	4,060	3.0
Veteran's Affairs Palo Alto Health Care System	3,900	2.9
Stanford Children's Health	3,500	2.6
VMware Inc.	3,500	2.6
SAP Labs Inc.	3,500	2.6
Varian Medical Systems	3,300	2.5
Tesla Inc.	2,650	2.0
Palo Alto Medical Foundation	2,200	1.6
Total Top 10	37,110	27.6

Source: City of Palo Alto FY2020-21 ACFR.

**TABLE A4**  
**SANTA CLARA COUNTY**  
**Top 10 Employers**  
**as of June 30, 2021**

Employer	Employees	% of Total County Employment
Apple Inc.	25,000	2.60%
Google LLC	25,000	2.60
Santa Clara County	20,638	2.15
Stanford University	15,314	1.59
Stanford Health Care	14,574	1.52
Tesla Motors Inc.	13,000	1.35
Cisco Systems Inc.	12,740	1.32
Kaiser Permanente	12,442	1.29
City of San Jose	7,641	.79
Intel Corporation	7,143	.74
Total Top 10	153,492	15.96

Source: Santa Clara County FY2020-21 ACFR.



## Construction Activity

The following tables reflect the five-year history of building permit valuation for the City and the County:

**TABLE A5  
CITY OF PALO ALTO  
Building Permits and Valuation  
(Dollars in Thousands)**

	2016	2017	2018	2019	2020 <sup>(1)</sup>
<b>Permit Valuation:</b>					
New Single-family	\$ 58,795	\$ 76,244	\$ 72,564	\$ 76,229	\$ 49,894
New Multi-family	5,764	9,262	-	-	31,725
Res. Alterations/Additions	36,423	70,538	33,568	14,563	6,001
Total Residential	100,983	156,046	106,133	90,792	87,621
Total Nonresidential	298,797	357,789	342,597	110,092	30,278
Total All Building	<u>399,780</u>	<u>513,835</u>	<u>448,731</u>	<u>200,884</u>	<u>117,900</u>
<b>New Dwelling Units:</b>					
Single Family	96	119	110	105	68
Multiple Family	30	28	-	-	8
Total	<u>126</u>	<u>147</u>	<u>110</u>	<u>105</u>	<u>76</u>

**TABLE A6  
SANTA CLARA COUNTY  
Building Permits and Valuation  
(Dollars in Thousands)**

	2016	2017	2018	2019	2020 <sup>(1)</sup>
<b>Permit Valuation:</b>					
New Single-family	\$ 660,301	\$ 732,652	\$ 728,590	\$ 693,032	\$ 465,531
New Multi-family	564,761	1,027,651	1,098,643	567,726	384,856
Res. Alterations/Additions	484,820	547,991	558,024	555,483	314,179
Total Residential	1,709,882	2,308,295	2,385,258	1,816,242	1,164,567
Total Nonresidential	4,698,158	3,359,316	4,132,146	5,447,642	2,816,509
Total All Building	<u>6,408,041</u>	<u>5,667,612</u>	<u>6,517,404</u>	<u>7,263,884</u>	<u>3,981,077</u>
<b>New Dwelling Units:</b>					
Single Family	1,608	2,022	2,011	1,814	1,329
Multiple Family	3,297	6,629	6,342	3,216	2,245
Total	<u>4,905</u>	<u>8,631</u>	<u>8,353</u>	<u>5,030</u>	<u>3,574</u>

Source: Construction Industry Research Board: "Building Permit Summary."

Note: Columns may not sum to totals due to independent rounding.

(1) Latest available full year data.

## Household Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of

wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the median household effective buying income for the City, the County, the State and the nation for the past five years.

**TABLE A7**  
**CITY OF PALO ALTO, SANTA CLARA COUNTY,**  
**STATE OF CALIFORNIA AND UNITED STATES**  
**Median Household Effective Buying Income**

	2017	2018	2019	2020	2021
City of Palo Alto	\$121,376	\$123,583	\$133,985	\$140,963	\$152,326
Santa Clara County	88,243	92,773	98,882	103,458	118,652
California	59,646	62,637	65,870	67,956	77,058
United States	50,735	52,841	55,303	56,790	64,448

Source: Nielsen, Inc.

## APPENDIX B

### CITY FINANCIAL INFORMATION

*The information in this appendix concerning the operations of the City and the City's finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of and interest on the 2022 Bonds is payable from the general fund of the City or from State revenues. The 2022 Bonds are payable solely from the proceeds of an ad valorem tax approved by the voters of the City pursuant to all applicable laws and State Constitutional requirements and required to be levied by the County on property within the City in an amount sufficient for the timely payment of principal and interest on the 2022 Bonds. See "SECURITY FOR THE 2022 BONDS" in the Official Statement.*

#### Financial Statements and Budgetary Process

The City's accounting policies conform to generally accepted accounting principles. The audited financial statements also conform to the principles and standards for public financial reporting established by the Governmental Accounting Standards Board.

*Basis of Accounting and Financial Statement Presentation.* The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

*Audited Financial Statements.* The City retained Macias Gini & O'Connell LLP, Walnut Creek, California (the "City's Auditor"), to examine the general purpose financial statements of the City as of and for the year ended June 30, 2021. The audited financial statements for fiscal year ended June 30, 2021, are included in APPENDIX B—ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2021. The City has not requested, and the City's Auditor has not provided, any review or update of such financial statements in connection with their inclusion in this Official Statement.

*Budget Process.* The City Council is required to adopt a final budget by no later than the close of its fiscal year. The annual budget serves as the foundation for the City's financial planning and control. Budget control is maintained at the fund and department level. The City Manager has the authority to approve appropriation transfers within the same department/fund. Transfers between funds/departments and amendments to the budget require City Council approval.

A comprehensive mid-year budget review is done in February or March to update revenue and expenditure projections. In addition, the City Council receives quarterly budget updates. The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated

budget approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) for the City's operating budget is at the fund/department level with departmental oversight of major expenditure categories as well as by program area within each fund. For the City's capital improvement budget each individual capital improvement project with budget transfers between subprojects is subject to City Manager approval and budget transfers between projects are subject to City Council approval. Appropriation increases, decreases or transfers between funds require the approval of the City Council.

All appropriations lapse at the end of the fiscal year unless specific carryovers are approved by the City Council.

Certain of the City's revenues are collected and dispersed by the State (such as sales tax and motor-vehicle license fees) or allocated in accordance with State law (most importantly, property taxes). Therefore, the State's budget decisions can have an impact on City finances.

## General Fund Balance Sheet

The following table shows the City's audited General Fund balance sheet for the past five fiscal years.

**TABLE B1**  
**CITY OF PALO ALTO**  
**GENERAL FUND**  
**BALANCE SHEET**  
**(Dollars in Thousands)**

	Fiscal Year Ended June 30,				
	2017	2018	2019	2020	2021
	Audited	Audited	Audited	Audited	Audited
<b>ASSETS</b>					
Cash and Investments	\$47,779	\$49,250	\$55,139	\$ 48,853	\$ 67,397
Accounts and Intergovernmental Receivables	17,418	18,881	21,669	11,944	14,053
Interest Receivable	738	950	1,167	695	645
Notes and Loans Receivable	496	479	-	845	826
Prepaid Items	-	-	-	-	291
Deposits	-	15	15	15	15
Due from other fund	-	-	843	1,895	943
Advance to Other Funds	2,915	3,128	3,115	3,233	3,036
Inventory of Materials and Supplies	4,298	4,427	4,517	4,874	5,208
Total Assets	73,644	77,130	86,465	70,354	92,414
<b>LIABILITIES</b>					
Accounts Payable and Accruals	4,984	4,293	6,501	3,581	5,115
Accrued Salaries and Benefits	1,466	1,525	1,562	2,046	2,254
Unearned Revenue	4,087	2,966	2,976	2,479	9,400
Total Liabilities	10,537	8,784	11,039	8,106	16,769
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue	-	-	211	409	9
<b>FUND BALANCES</b>					
Nonspendable:					
Notes and Loans Receivable	496	479	-	845	826
Prepaid Items	-	-	-	-	291
Deposits	-	15	15	15	15
Inventories	4,298	4,427	4,517	4,874	5,208
Advances to Other Funds	2,915	3,128	3,115	3,233	3,036
Committed for:					
Development Services	-	373	4,399	3,804	3,950
Edgewood Plaza	-	-	-	-	701
Assigned for:					
Unrealized Gain on Investments	-	-	709	3,199	1,891
Other General Governmental Purposes	6,150	5,325	5,622	7,219	5,912
Electric charger	-	-	17	25	30
College Terrace fences	-	-	160	160	-
Reappropriations	1,130	1,773	1,149	1,893	4,687
Unassigned for:					
Budget Stabilization	48,118	52,826	54,811	35,871	49,089
Total Fund Balances	63,107	68,346	75,215	61,839	75,636
Total Liabilities, Deferred Inflows of Resources and Fund Balances	73,644	77,130	86,465	70,354	92,414

Source: City of Palo Alto 2017-21 ACFRs.

## General Fund Revenues, Expenditures, and Changes in Fund Balances

The following table shows the City's audited results for General Fund revenues and expenditures for Fiscal Years 2017-18 through 2020-21 and budgeted projections for Fiscal Year 2021-22.

**TABLE B2**  
**CITY OF PALO ALTO**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**(Dollars in Thousands)**

	Fiscal Year Ending June 30,				
	2018 Audited	2019 Audited	2020 Audited	2021 Audited	2022 Budget
<b>REVENUES</b>					
Property Tax	\$ 42,839	\$ 47,327	\$ 51,089	\$ 56,572	\$ 51,228
Sales Tax	31,091	36,508	30,563	29,127	28,184
Utility Users Tax	15,414	16,402	16,140	14,642	14,370
Transient Occupancy Tax	24,937	25,649	18,553	5,179	8,428
Documentary Transfer Tax	9,229	6,923	6,903	10,627	7,137
Other Taxes and Fines	2,141	1,888	1,172	683	1,434
Charges for Services	26,824	27,346	24,127	25,105	23,870
Intergovernmental	3,205	2,863	3,783	3,828	22,686
Permits and Licenses	8,560	8,410	7,467	7,261	8,406
Investment Earnings	(828)	5,672	4,037	(161)	852
Rental Income	15,896	16,338	15,964	13,293	14,476
Other Revenue	776	1,753	587	632	2,260
<b>Total Revenues</b>	<b>180,084</b>	<b>197,079</b>	<b>180,385</b>	<b>166,788</b>	<b>183,331</b>
<b>EXPENDITURES</b>					
City Council	337	265	214	224	433
City Manager	2,509	2,883	3,273	2,304	3,319
City Attorney	2,244	2,649	2,509	2,149	3,945
City Clerk	819	805	815	748	1,327
City Auditor	870	865	680	645	972
Administrative Services	5,347	5,512	5,960	5,202	8,923
Human Relations	2,369	2,567	2,792	2,421	3,921
Public Works	14,569	13,757	13,577	13,265	18,785
Planning and Community Environment	8,312	8,132	19,269 <sup>(1)</sup>	15,830 <sup>(1)</sup>	17,673
Development Services	11,749	11,549	— <sup>(1)</sup>	— <sup>(1)</sup>	— <sup>(1)</sup>
Office of Transportation	—	—	2,052	1,936	1,747
Police	40,326	42,854	45,679	41,328	43,115
Fire	33,522	33,489	36,440	34,918	36,914
Community Services	27,122	28,903	29,603	26,254	31,052
Library	9,120	9,288	9,988	8,528	8,903
Non-Departmental	5,973	11,769	9,255	4,599	13,478
Capital Outlay	—	—	—	—	—
Debt Service - Principal	416	426	—	—	—
Debt Service - Interest	16	5	—	—	—
<b>Total Expenditures</b>	<b>165,620</b>	<b>175,718</b>	<b>182,106</b>	<b>160,351</b>	<b>194,507</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>14,464</b>	<b>21,361</b>	<b>(1,721)</b>	<b>6,437</b>	<b>(11,176)</b>
<b>OTHER FINANCING SOURCES</b>					
Proceeds from Sale of Capital Assets	—	2,442	—	100	—
Transfers In	20,310	20,154	20,568	20,880	23,121
Transfers Out	(29,535)	(37,088)	(32,223)	(13,620)	(14,702)
<b>Total Other Financing Sources</b>	<b>(9,225)</b>	<b>(14,492)</b>	<b>(11,655)</b>	<b>7,360</b>	<b>8,419</b>
<b>Change in Fund Balances</b>	<b>5,239</b>	<b>6,869</b>	<b>(13,376)</b>	<b>13,797</b>	<b>(2,757)</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>63,107</b>	<b>68,346</b>	<b>75,215</b>	<b>61,839</b>	<b>75,636</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>68,346</b>	<b>75,215</b>	<b>61,839</b>	<b>75,636</b>	<b>72,879</b>

Source: City of Palo Alto 2018-21 ACFRs and City of Palo Alto Finance Department.

(1) Planning and Community Environment and Development Services totals are combined in FY2019-20 and future years.

## **Reductions in General Fund Revenues and Expenditures in FY2019-20 and FY2020-21 due to the COVID-19 Pandemic**

The City's general fund revenues for sales taxes, utility users taxes, rental income and transient occupancy taxes in fiscal years 2019-20 and 2020-21 fell below historical expectations due to the unanticipated and severe disruptions caused by the COVID-19 Pandemic. The City's fiscal year 2020-21 results reflect the one full year of the economic impacts of the COVID-19 Pandemic including the stark, immediate results stemming from shelter in place orders.

The City's expenditures for the 2019-20 and 2020-21 fiscal years reflect certain temporary and permanent reductions in expenses to offset the revenue losses, including staffing reductions, reductions in service/operating hours/programs at City owned facilities, and labor and bargaining unit concessions. All City General Fund department functional expenses decreased except for Public Works which increased due to various repairs and maintenance of capital assets such as streets, sidewalks, facilities, and parks all of which are non-capitalizable and Administrative Services mainly due to the expenses incurred for claims related to a class action lawsuit. For additional discussion, see "Principal Sources of General Fund Revenues," "Sales and Use Taxes", and "Transient Occupancy Taxes" herein.

## General Fund Budget to Actuals Comparison

The following table shows the City's General Fund adopted budget figures and a comparison of the final General Fund budgets versus audited actuals for Fiscal Year 2019-20 and Fiscal Year 2020-21.

**TABLE B3**  
**CITY OF PALO ALTO**  
**GENERAL FUND**  
**BUDGET COMPARISON**  
**Fiscal Years 2019-20 and 2020-21**  
**(Dollars in Thousands)**

	Fiscal Year Ending June 30, 2020			Fiscal Year Ending June 30, 2021		
	Adopted Budget	Final Budget	Audited Actuals	Adopted Budget	Final Budget	Audited Actuals
<b>REVENUES</b>						
Sales Tax	\$ 34,346	\$ 30,617	\$ 30,563	20,500	25,030	29,127
Property Tax	48,634	50,853	51,089	52,000	53,173	56,572
Transient Occupancy Tax	29,309	19,425	18,553	14,900	5,123	5,179
Documentary Transfer Tax	8,369	6,676	6,903	4,700	6,875	10,627
Utility User Tax	17,581	16,133	16,140	15,100	14,080	14,642
Other Taxes and Fines	2,032	1,237	1,172	1,925	392	683
Charges for Services	30,127	25,196	24,127	25,984	24,414	25,105
Permits and Licenses	8,667	6,597	7,467	7,770	8,366	7,708
Investment Earnings	1,433	1,433	1,558	1,145	1,145	1,062
Rental Income	16,326	16,041	15,964	15,949	15,331	13,293
Intergovernmental	2,756	3,245	4,301	2,448	4,580	4,222
Other Revenue	587	619	587	674	666	732
Charges to other funds and departments	10,908	10,908	11,099	11,992	11,992	11,661
Prior year encumbrances	-	6,469	6,469	-	7,570	7,570
Total Revenues	211,075	195,449	195,992	175,087	178,737	188,183
<b>EXPENDITURES</b>						
City Attorney	3,387	3,896	3,789	3,485	3,744	3,589
City Auditor	1,235	1,157	981	828	981	962
City Clerk	1,346	1,402	1,186	1,245	1,293	1,147
City Council	498	542	414	419	509	366
City Manager	4,546	4,734	4,671	3,161	3,562	3,492
Administrative Services	8,519	8,770	8,515	8,362	8,338	7,897
Community Services	30,929	31,591	31,489	28,379	28,839	27,769
Police	46,369	46,845	46,844	41,733	42,441	42,441
Fire	34,889	36,773	36,772	33,607	35,354	35,354
Human Resources	3,902	4,107	3,994	3,554	3,622	3,545
Library	10,314	10,187	10,092	8,421	8,655	8,636
Planning and Community Environment	20,356	22,021	21,098	17,386	19,611	18,782
Public Works	19,142	19,341	18,932	18,397	19,089	18,553
Non-Departmental	9,028	12,312	10,156	8,237	9,332	9,259
Total Expenditures	196,772	206,411	201,293	179,118	187,509	183,802
EXCESS OF REVENUES OVER EXPENDITURES	14,303	(10,962)	(5,301)	(4,031)	(8,772)	4,381
<b>OTHER FINANCING SOURCES</b>						
Transfers In	20,999	20,842	20,568	21,359	21,154	21,154
Transfers Out	(33,985)	(32,223)	(32,223)	(17,801)	(13,620)	(13,620)
Total Other Financing Sources	(12,986)	(11,381)	(11,655)	3,558	7,534	7,534
Change in Fund Balances, Budgetary Basis	1,317	(22,343)	(16,956)	(473)	(1,238)	11,915
Change in Fund Balances, GAAP Basis			(13,376) <sup>(1)</sup>			13,797 <sup>(2)</sup>
FUND BALANCES, BEGINNING OF YEAR, GAAP Basis			75,215			61,839
FUND BALANCES, END OF YEAR, GAAP Basis			61,839			75,636

Source: City of Palo Alto 2020-21 ACFRs.

- (1) Reflects adjustments for an unrealized gain of \$2,479, current year encumbrances and reappropriations of \$7,570 and prior year encumbrances and reappropriations of \$(6,469).
- (2) Reflects adjustments for an unrealized loss of \$(1,297), changes in interfund balances of \$(197), current year encumbrances and reappropriations of \$10,946 and prior year encumbrances and reappropriations of \$(7,570).



## City Financial Management

The City Council has adopted a comprehensive set of financial management policies to provide for: (i) establishing targeted general fund reserves; (ii) the prudent investment of City funds, and (iii) management of debt. The City's practice is to incur debt only after deliberation over the effect of such debt on the City's General Fund and other resources of the City, and in those circumstances where the use of debt would be appropriate to the scale and economic life of the asset being financed and the accumulation or availability of reserves to fund the capital requirement.

*General Fund Budget Stabilization Reserve Policy.* The following table shows the City's general fund Budget Stabilization Reserve Policy guidance, actual reserves for fiscal year 2020-21 and budgeted reserve for fiscal year 2021-22.

### CITY OF PALO ALTO GENERAL FUND BUDGET STABILIZATION RESERVE POLICY

	Policy Guidance	Actual FY 2020-21	Budgeted FY 2021-22
% of Expenses	15% to 20%; target goal of 18.5%	23.5%	17.2%

Source: City of Palo Alto Finance Department.

During the 2019-20 fiscal year, the City drew \$11.7 million from its Budget Stabilization Reserve (BSR) to mitigate service reductions as a result of revenue losses associated with the Covid-19 pandemic, bringing the remaining balance of the BSR to approximately \$35.9 million as of June 30, 2020. During the 2020-21 fiscal year the City increased the BSR by \$13.2 million through a combination of excess revenue above budgeted levels and expenditure savings, bringing the BSR balance to approximately \$49.1 million as of June 30, 2021.

The City's adopted fiscal year 2021-22 budget relied on the use of \$1.8 million from the BSR. The City's fiscal year 2021-22 adopted budget reduced the BSR to \$36.0 million or 17.2% of the adopted budget. This is within the targeted range of 15% to 20% but below the City Council goal of 18.5%. Since the budget adoption, the fiscal year 2021-22 BSR has been updated to reflect the final fiscal year 2020-21 BSR. The BSR is currently at \$40.7 million or 19.4% of the adopted budget. As discussed in the fiscal year 2023-32 Long Range Financial Forecast, major general fund tax revenues are anticipated to be higher than budgeted levels in fiscal year 2021-22. Based on actual receipts for the first half of the fiscal year and projections for the remainder of the 2021-22 fiscal year, major tax revenues are anticipated to be \$15 million over the adopted budget. Staff will return to the City Council as part of the fiscal year 2022-23 budget development process to discuss use of these funds.

*Investment Policy.* The investment of funds of the City (except pension and retirement funds) is made in accordance with the City's Investment Policy, most recently approved in June 2021 (the "Investment Policy"), and section 53601 *et seq.* of the California Government Code. The Investment Policy is subject to revision at any time and is reviewed at least annually to ensure compliance with the stated objectives of safety, liquidity, yield, and current laws and financial trends. All amounts held under the Resolution are invested at the direction of the City in Investment Securities, as defined in the Resolution, and are subject to certain limitations contained therein. See APPENDIX C—INVESTMENT POLICY OF THE CITY and APPENDIX E—SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—TRUST AGREEMENT—Investments.

*Debt Management Policy.* In accordance with section 8855(i) of the California Government Code the City adopted a debt management policy on April 11, 2017, to establish conditions for the use of debt; to ensure that debt capacity and affordability are adequately considered; to minimize the City's interest and issuance costs; to maintain the highest possible credit rating; to provide complete financial disclosure and reporting; and to maintain financial flexibility for the City.

*Capital Improvement Project Practices.* While the City does not have an adopted capital improvement project policy, it does have certain criteria that must be adhered to before commencing a capital improvement project including (a) that the project must have a minimum cost of \$50,000 for each stand-alone unit or combined project, (b) that the project must have a useful life of at least five to seven years, and (c) that the project must extend the life of an existing asset or provide a new functional use for an existing asset for at least five years.

## Principal Sources of General Fund Revenues

The City relies on several sources to balance its General Fund budget. The most important of these revenue sources (based on percentage of the total revenue budget) are taxes and fees including the following: property taxes, sales taxes, and transient occupancy taxes.

The following table shows the City's General Fund tax revenues by source for the four most recent fiscal years and budgeted projections for Fiscal Year 2021-22:

**TABLE B4**  
**CITY OF PALO ALTO**  
**GENERAL FUND TAX REVENUES BY SOURCE**  
**(Dollars in Thousands)**

	Fiscal Year Ending June 30,				
	2018	2019	2020	2021	2022
	Audited	Audited	Audited	Audited	Budgeted
Property Tax	\$ 42,839	\$ 47,327	\$ 51,089	\$ 56,572	\$ 51,228
Sales Tax	31,091	36,508	30,563	29,127	28,184
Transient Occupancy Tax	24,937	25,649	18,553	5,179	8,428
Utility User Tax	15,414	16,402	16,140	14,642	14,370
Documentary Transfer Tax	9,229	6,923	6,903	10,627	7,137
Other Taxes and Fines	2,141	1,888	1,172	683	1,434
Total Tax Revenues	<u>125,651</u>	<u>134,697</u>	<u>124,420</u>	<u>116,830</u>	<u>\$110,781</u>

Source: City of Palo Alto 2028-21 ACFRs and City of Palo Alto Finance Department.

In Fiscal Year 2019-20, the City's General Fund tax revenues accounted for approximately \$124.4 million or 69% of the City's total General Fund revenues for Fiscal Year 2019-20. In Fiscal Year 2020-21, the City's General Fund tax revenues accounted for approximately \$116.8 million or 70% of the total General Fund revenue for Fiscal Year 2020-21. General Fund tax revenues are projected to account for approximately \$110.8 million or 60.4% of the City's total General Fund revenue budget for Fiscal Year 2021-22.

*Property Taxes.* The County levies a tax of 1% on the assessed valuation of property within the County. The City receives approximately a 9.4% share of this 1% levy for property located within the City

limits. In Fiscal Year 2019-20 property taxes generated approximately \$51.1 million in General Fund revenues. In Fiscal Year 2020-21 property taxes generated approximately \$56.5 million in General Fund revenues. Property tax revenues are budgeted to be \$51.2 million, the adjusted budget is \$53.2 million and projected to generate millions more in Fiscal Year 2021-22 in General Fund revenues. Property taxes are the General Fund's largest revenue source. Property Tax revenues for Fiscal Year 2019-20 and 2020-21 have not been materially impacted by impacted by the COVID-19 Pandemic.

*Sales and Use Taxes.* The City receives a 1% share of all taxable sales generated within its borders. In Fiscal Year 2019-20 sales and use taxes generated approximately \$30.1 million in General Fund revenues. In Fiscal Year 2020-21 sales and use taxes generated approximately \$29.1 million in General Fund revenues. Sales and use taxes are budgeted to be \$28.2 million, however, due to better than expected economic recovery is projected to generate millions more in Fiscal Year 2021-22 in General Fund revenues. Sales and use taxes are the General Fund's second largest revenue source. Sales and Use Tax revenues for Fiscal Years 2019-20 and 2020-21 were impacted by the COVID-19 Pandemic, primarily in lower revenues generated by high end in-person retail sales and by eating and drinking establishments. For additional discussion, see "Sales and Use Taxes."

*Transient Occupancy Taxes.* The City imposes a transient occupancy tax on all hotels in the City. The current rate is 15.5% of the rent charged. In Fiscal Year 2019-20 transient occupancy taxes generated approximately \$18.5 million in General Fund revenues. In Fiscal Year 2020-21 transient occupancy taxes generated approximately \$5.2 million in General Fund revenues. Transient occupancy taxes are budgeted at \$8.4 million but based on receipts for the first half of the fiscal year is projected to generate millions more in Fiscal Year 2021-22 in General Fund revenues. Transient Occupancy Tax revenues for Fiscal Years 2019-20 and 2020-21 have been the City's most impacted General Fund revenue source from the effects of the COVID-19 Pandemic and fall substantially below historical norms. Due to the lifting of public health restrictions and to improvements in public health including decreasing hospitalizations and mortality rate, the City expects Transient Occupancy Taxes for fiscal year 2021-22 and future years to revert to historical norms. For additional discussion, see "Transient Occupancy Tax."

## **Sales and Use Taxes**

A sales tax is imposed on the privilege of consuming personal property in the State. The State does not tax services. The tax rate is established by the State Legislature, and is presently 7.25%, statewide (of which 1% is paid to the City) (the "State Sales Tax"). In addition, many of the State's cities, counties, districts and communities have special taxing jurisdiction to impose a transaction (sales) or use tax. These so-called district taxes increase the tax rate in a particular area by adding the local option tax to the statewide tax. While more than one district tax may be in effect for a particular location, counties, municipalities, and districts are allowed to increase the sales tax in specific jurisdictions up to a total of 10.25%.

The State's Department of Tax and Fee Administration actual administrative costs with respect to the portion of sales taxes allocable to the City are deducted before distribution and are determined on a quarterly basis.

The following table shows a breakdown of the composition of the current sales and use tax rate applicable to transactions in the City:

**TABLE B5  
CITY OF PALO ALTO  
CURRENT SALES AND USE TAX RATES**

Component	Tax Rate
State General Fund	5.75%
State Local Public Safety Fund	0.50
City General Fund	1.00
County Transportation	1.88
Total	9.13%

Source: City of Palo Alto

The State's Department of Tax and Fee Administration actual administrative costs with respect to the portion of sales taxes allocable to the City are deducted before distribution and are determined on a quarterly basis.

Many categories of transactions are exempt for the State Sales Tax. The most important of these exemptions are the sales of food products for home consumption, prescription medicine, edible livestock and their feed, seed and fertilizer used in raising food for human consumption, and gas and electricity and water when delivered to consumers through mains, lines and pipes. In addition, occasional sales (i.e., sales of property not held or used by a seller in the course of activities for which he or she is required to hold a seller's permit) are generally exempt from both the State Sales Tax; however, the occasional sales exemption does not apply to the sale of an entire business and other sales of machinery and equipment used in a business.

Action by the State Legislature or by voter initiative could change the transactions and items upon which the State Sales Tax are imposed. Such changes or amendments could have either an adverse or beneficial effect on revenues produced by sales taxes. The City is not currently aware of any proposed legislative change that would have a material adverse effect on the State Sales Tax.

*Effects of COVID-19 Pandemic on Sales Tax Collections.* The City's sales tax receipts for Fiscal Years 2019-20 and 2020-21 have been impacted and may continue be impacted by the short and long-term effects of the COVID-19 Pandemic. During the COVID-19 Pandemic the City has experienced significant declines of in-person sales of high-end retail goods and declines in dining options at eating and drinking establishments, such as the stores and restaurants located at the Stanford Shopping Center. These declines have been partially offset by the strong performance in the business-to-business segment and in sales tax revenues from online sales. The City expects Sales and Use Tax Revenues to improve as the COVID-19 Pandemic wanes.

### **Transient Occupancy Taxes**

The City levies a 15.5% tax on hotels and lodging establishments. The 15.5% transient occupancy tax level became effective on April 1, 2019 following the approval of an increase by 68% of the voters of the City voting in the November 6, 2018 election. Prior to April 1, 2019 the transient occupancy tax rate was 14% following an adjustment in 2014 when it was raised from 12%. The City's transient occupancy tax is a general tax and can be used for any governmental purpose.

The City’s historical transient occupancy tax revenue since fiscal year 2010-11 is shown in the following table.

**TABLE B6**  
**CITY OF PALO ALTO**  
**HISTORICAL TRANSIENT OCCUPANCY TAX REVENUES**  
**(Dollars in Thousands)**

Fiscal Year	Transient Occupancy Tax Revenues
2010-11	\$ 8,082
2011-12	9,664
2012-13	10,794
2013-14	12,255
2014-15	16,699
2015-16	22,366
2016-17	23,477
2017-18	24,937
2018-19	25,649
2019-20	18,553
2020-21	5,179
2021-22 <sup>(1)</sup>	8,484

Source: Palo Alto Finance Department

(1) Budgeted Projection, for discussion, see *Effects of COVID-19 Pandemic on Transient Occupancy Tax Revenues*.

*Effects of COVID-19 Pandemic on Transient Occupancy Tax Revenues.* Transient occupancy taxes are the City’s most impacted General Fund revenue source from the result of closures and reduced travel caused by the COVID-19 Pandemic. The City’s collections of transient occupancy tax revenues are down substantially in fiscal year 2019-20 and fiscal year 2020-21 as compared to historical levels. Six hotels within the City, representing approximately 16.3 percent of available rooms remained closed for the City’s entire 2020-21 fiscal year, while two other smaller hotels reopened partway through the City’s 2020-21 fiscal year. The hotels that remained open experienced significant declines in average daily room and occupancy rates in the first three quarters of fiscal year 2020-21 and partially recovered during the fourth quarter. During fiscal year 2020-21 the average occupancy rate in the City was 40.6 percent, a 33.4 percent decrease from fiscal year 2019-20 and the average room rate was \$116.90, a 55.9 percent decrease from fiscal year 2019-20.

In response to the severe decrease in transient occupancy tax revenues, the City instituted a number of cuts to its General Fund expenditures in fiscal years 2019-20 and 2020-21. For additional discussion, see “Reductions in General Fund Revenues and Expenditures in FY2019-20 and FY2020-21 due to the COVID-19 Pandemic.”

As the COVID-19 Pandemic wanes, the City expects revenues from transient occupancy taxes to revert towards historical norms. Additionally, two new Marriott hotels (with a combined total of 293 rooms) have recently opened during 2021.

For additional information about the status of the COVID-19 Pandemic and the state’s reopening process, see “RISK FACTORS—COVID-19 Pandemic.”

## Other Sources of General Fund Revenues

In addition, the City receives the following General Fund revenues:

*Licenses and Permits.* The City charges certain permits, licenses and fees for the cost recovery of providing current planning, building inspection, recreation and other municipal services.

*Charges for Services.* The City charges various fees and charges for services provided, including development and inspection fees, paramedic fees, charges for public works, police, fire, library and parks and recreation services. By law, the City may not charge more than the cost of providing the service.

*Fines, Forfeitures and Penalties.* These revenues include parking citations and other fines for municipal code violations.

The following table illustrates other revenue sources for the four most recent fiscal years and the budgeted data for the current fiscal year:

**TABLE B7**  
**CITY OF PALO ALTO**  
**OTHER REVENUE SOURCES**

	Fiscal Year Ending June 30,				
	2018	2019	2020	2021	2022
	Audited	Audited	Audited	Audited	Budgeted
Charges for Services	\$ 26,824	\$ 27,346	\$ 24,127	\$ 25,105	\$23,870
Rental Income	15,896	16,338	15,964	13,293	14,476
From Other Agencies	3,205	2,863	3,783	3,828	8,521
Permits and Licenses	8,560	8,410	7,467	7,261	8,406
Investment Earnings <sup>(1)</sup>	(828)	5,672	4,037	(161)	852
Other Income	776	1,753	587	632	2,260
Total Other Revenues	54,433	62,382	55,965	49,958	\$58,385

Source: City of Palo Alto Finance Department.

(1) Net of actual interest earnings and unrealized (paper) gain and loss.

*Impact of COVID-19 Pandemic on Other Revenue Sources.* Fiscal Years 2019-20 and 2020-21 revenues from charges for services and rental income were reduced as compared to prior years. The City closed or reduced operations at many of its Park & Recreation and Library facilities and has cancelled some of its programs in fiscal years 2019-20 and 2020-21 and began re-instate these programs and classes as conditions related to the COVID-19 Pandemic improved. Charges for services revenues were also offset by increased revenues generated from the City's golf course. Tenants not paying their monthly lease and rent payments because of COVID-19 Pandemic have negatively affected the City's rental income revenues. The City expects these revenues sources to return to historical norms as the COVID-19 Pandemic improves.

## Reliance on State Budget

The City does not rely on the State for a material amount of revenues.

Continued economic uncertainty caused by the COVID-19 outbreak will significantly affect the State's fiscal outlook, including lower capital gains-related tax revenue due to the volatility in the financial

markets, the likelihood that a recession is forthcoming due to pullback in activity across wide swaths of the economy, and substantially increased expenditures related to fighting the COVID-19 Pandemic. The City cannot predict the short or long-term impacts that the COVID-19 Pandemic will have on global, State-wide and local economies, which may impact City operations and local property values.

There can be no assurance that future State budget difficulties will not adversely affect the City's revenues or its ability to pay debt service on the 2022 Bonds.

## Labor Relations

Most full-time City employees are represented by two labor union associations, the principal one being the SEIU, which represents approximately 50% of all City employees. Approximately 80% of all permanent City employees are covered by negotiated agreements with management, confidential, and city attorney employees being unrepresented. The City has never had an employee work stoppage. Negotiated agreements have the following expiration dates:

**TABLE B8  
CITY OF PALO ALTO  
NEGOTIATED EMPLOYEE AGREEMENTS**

Bargaining Unit	Contract Expiration Date	Number of Employees
International Association of Firefighters (IAFF)	June 30, 2022	88
Fire Chiefs' Association (FCA)	June 30, 2022	4
Palo Alto Peace Officers Association (PAPOA)	June 30, 2022	83
Palo Alto Police Managers Association (PAPMA)	June 30, 2022	7
Service Employees International Union (SEIU)	December 31, 2021	573
Service Employees International Union Hourly Unit (SEIU-H)	June 30, 2021	65
Utilities Management Professional Association of Palo Alto (UMPAPA)	June 30, 2020	49
Management and Professional Personnel and Council Appointees Compensation Plan	June 30, 2021	220
Limited Hourly Employees Compensation Plan	June 30, 2021	40
Total		<u>1,147</u>

Source: City of Palo Alto

## Risk Management

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

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

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

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

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

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

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

During the year ended June 30, 2021, the City paid \$2.1 million to ACCEL for current year coverage.

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

The City’s liability for uninsured claims is limited to dental, general liability, and workers’ compensation claims, as discussed above. Dental liability is based on a percentage of current year actual expense.

During fiscal year 2020-21 the City recorded claims payable of \$12.6 million on its governmental activities’ financial statements for a class action lawsuit filed against the City that challenged the City’s gas and electric rates.

The City has not incurred a claim that has exceeded its insurance coverage limits in any of the last three years, however there has been a significant reduction in insurance coverage. California municipalities’ liability claim costs have significantly increased all cities’ costs, and have caused insurance underwriters to pull back from the California insurance market. California is faced with continuing negative claims trends driven by (1) dangerous condition claims involving significant medical damages, (2) changing laws involving sexual misconduct, and (3) costly law enforcement liability claims. Settlements and verdicts for these losses have rapidly inflated in cost resulting in the reduction of insurance for California public entities.

For additional information about the City’s Risk Management, see APPENDIX B—ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2021, Note 14.

## **Joint Ventures**

The City participates in joint ventures through Joint Powers Authorities (“JPAs”) established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these JPAs exercise full powers and authorities within the scope of the related Joint Powers Agreement, including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the



right to sue and be sued. Obligations and liabilities of the JPAs, including the long-term debt in which the City participates in repayment, are not obligations and liabilities of the City, and are not reported on the City's financial statements.

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

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

During the year ended June 30, 2021, the City incurred expenses totaling \$92.1 million for purchased power and assessments earned by NCPA.

The City's interest in NCPA projects and reserves, as computed by NCPA, was \$8.1 million at June 30, 2021. This amount represents the City's portion of funds, which resulted from the settlement with third parties of issues with financial consequences and reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employees' post-retirement medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion, which will require funding to cover debt service and operational costs more than the expected value of the electric power. The General Operating Reserve is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. There are no funds on deposit with NCPA as a reserve against these contingencies identified by NCPA.

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

*Calaveras Hydroelectric Project.* In July 1981, NCPA agreed with Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments to NCPA began in February 1990 when the project was declared substantially complete and power was delivered to the participants. Under its power purchase agreement with NCPA, the City is obligated to pay 22.9 percent of this Project's debt service and operating costs. At June 30, 2021, the book value of this Project's plant, equipment and other assets was \$303.8 million, while its long-term debt totaled \$255.8 million and other liabilities totaled \$44.5 million. The City's share of the Project's long-term debt amounted to \$58.6 million at that date.

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

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

In 2013 the City participated in a debt issuance by BAWSCA. The debt was issued to repay certain long- term costs associated with the San Francisco Public Utilities Commission water supply contract. During the 2020-21 fiscal year, the City paid its share of the annual debt service of \$1.9 million, which will vary based on annual water purchases of the City compared to other BAWSCA agencies.

## **Employee Retirement Plans**

*The information set forth below regarding the California Public Employees’ Retirement System (“CalPERS”) program, other than the information provided by the City regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not be construed as a representation by either the City or the Purchasers.*

*Plan Description.* Substantially all permanent employees are eligible to participate in the City’s Safety Plan (police and fire) and Miscellaneous Plan (all others), agent multiple employer defined benefit pension plans administered by the CalPERS, which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

*Benefits Provided.* CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

*Employees Covered.* At June 30, 2021, the following employees were covered by the benefit terms for each Plan.

**TABLE B9  
CITY OF PALO ALTO  
COVERED EMPLOYEES**

	<u>Miscellaneous</u>	<u>Safety</u>
Inactive employees or beneficiaries currently receiving benefits	1,223	435
Inactive employees entitled to but not yet receiving benefits	835	104
Active employees	<u>777</u>	<u>174</u>
Total	<u>2,835</u>	<u>713</u>

Source: City of Palo Alto 2020-21 ACFR.

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

The City's contributions to its Miscellaneous and Safety Plans for the past four years is summarized in the following table.

**TABLE B10  
CITY OF PALO ALTO  
HISTORICAL PENSION CONTRIBUTIONS  
(Dollars in Thousands)**

Fiscal Year Ending June 30,	Miscellaneous Plan	Safety Plans	Total Contributions
2017	\$ 20,638	\$ 10,220	\$ 30,858
2018	23,342	11,030	34,372
2019	25,423	12,370	37,793
2020	28,889	14,297	43,186
2021	32,782	14,796	47,578

Source: City of Palo Alto 2017-21 ACFRs.

*Section 115 Trust.* In April 2017, the City established a Section 115 irrevocable trust with the Public Agency Retirement Services ("PARS"). The City Council of the City approved an initial deposit of \$2.1 million in General Fund proceeds into the General Fund subaccount of the City's PARS Trust Account. The Trust Account allows more control and flexibility in investment allocations compared to City's portfolio which is restricted by State regulations to fixed income instruments. The City proactively contributes to the Section 115 irrevocable trust amounts reflective of what retirement costs would be if the normal cost of contributions was budgeted at a 6.2% discount rate. The City contributed \$5.0 million to the

PARS Trust during the 2020-21 fiscal year. As of June 30, 2021, the City reported the account balance of \$37.1 million as restricted investments in its General Benefits Internal Service Fund.

*Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions.* For the year ended June 30, 2021, the City recognized pension expense of \$34.7 million for the Miscellaneous Plan and \$25.7 million for the Safety Plans, respectively. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**TABLE B11**  
**CITY OF PALO ALTO**  
**DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**  
**FISCAL YEAR 2020-21**  
**(Dollars in Thousands)**

	Miscellaneous		Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions after measurement date	\$ 32,782	\$ -	\$ 14,796	\$ -
Diff. btw. actual and expected experience	5,051	-	5,157	-
Changes in assumptions	-	-	-	-
Diff. btw. projected and actual earnings on investment	3,887	-	1,977	-
Total	41,720	-	21,930	-

Source: City of Palo Alto 2020-21 ACFR.

For information concerning the City's pension obligations, including descriptions of the actuarial methods and assumptions, and an explanation of the discount rate used, please see APPENDIX B—ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2021, Note 11.

*Funded Status.* The following table sets forth a summary of the funding progress for the City's Miscellaneous and Safety Plans for the four most recent actuarial valuation dates.

**TABLE B12**  
**CITY OF PALO ALTO**  
**HISTORICAL PENSION FUNDING PROGRESS**  
**(Dollars in Thousands)**

Date June 30,	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll
Miscellaneous Plan					
2017	\$714,019	\$469,782	\$244,237	65.8%	\$73,722
2018	780,729	512,924	267,805	65.7%	77,606
2019	811,330	546,669	264,661	67.4%	80,634
2020	849,004	573,840	275,164	67.6%	82,573
2021	884,335	594,063	290,272	67.2%	81,017
Safety Plans					
2017	\$383,556	\$250,474	\$133,082	65.3%	\$21,822
2018	415,775	268,468	147,307	64.6%	21,906
2019	439,408	280,173	159,235	63.8%	24,131
2020	456,817	289,028	167,789	63.3%	24,263
2021	477,550	294,739	182,811	61.7%	26,189

Source: City of Palo Alto 2020-21 ACFR.

*CalPERS Amortization Period Reform.* On February 13, 2018, the CalPERS Board voted to shorten the period over which actuarial gains and losses are amortized from 30 years to 20 years for new pension liabilities. The new 20-year amortization period begins with new gains or losses accrued starting with the June 30, 2019 actuarial valuations. The first payments on the new 20-year amortization schedule will take place in 2021.

A shorter amortization period will increase annual Unfunded Accrued Liability (“UAL”) contributions for cities that participate in CalPERS so long as CalPERS remains underfunded. The shortened amortization period will also lead to reductions of periods of negative amortization of the UAL, interest cost savings, and faster recoveries of funded status after market downturns.

Cities that participate in CalPERS will also see additional volatility in their future UAL contributions due to market performance as gains or losses will be amortized faster under the new amortization period.

The City cannot currently estimate the impact the shorter amortization period will have on its required contributions for its Miscellaneous and Safety Plans.

### **Other Post-Employments Benefits**

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

In fiscal year 2007-08 the City elected to participate in an irrevocable trust to provide a funding mechanism for retiree health benefits. The trust, California Employers' Retirees Benefit Trust ("CERBT"), is administrated by CalPERS and managed by a separately appointed board, which is not under control of the City Council. This Trust is not considered a component unit of the City.

The City's OPEB funding policy is to prefund these benefits by accumulating assets in the CERBT pursuant to City Council Resolution. For the year ended June 30, 2021, the City's contributions totaled \$14.6 million.

*Employees Covered.* Membership of the plan consisted of 1,011 retirees and beneficiaries receiving benefits, 75 inactive members entitled to but not yet receiving benefits and 897 active plan members at June 30, 2020, the date of the latest actuarial valuation.

*Funding Policy.* The contribution requirements for plan members and the City are established by an MOU as negotiated by each group or bargaining unit. The required contribution is based on projected pay-as-you-go financing requirements.

*Changes in Net OPEB Liability.* The following table shows the changes in the City's net OPEB obligation to the Plan:

**TABLE B13**  
**CITY OF PALO ALTO**  
**CHANGE IN NET OPEB LIABILITY**  
**Fiscal Year 2020-21**  
**(Dollars in Thousands)**

Service cost	\$ 6,366
Interest on OPEB liability	16,572
Employer contributions	(16,475)
Investment income	(4,327)
Changes in benefit terms	-
Changes in assumptions	(4,426)
Difference btw. actual and expected exp.	-
Administrative expenses	58
Net changes	(2,323)
Net OPEB obligation, beginning of the year	127,030
Net OPEB obligation, end of the year	124,798

Source: City of Palo Alto 2020-21 ACFR.

The following table shows a three-year history of the City's outstanding OPEB obligation and covered payroll.

**TABLE B14**  
**CITY OF PALO ALTO**  
**HISTORIC OPEB LIABILITY AND COVERED PAYROLL**  
**(Dollars in Thousands)**

Fiscal Year Ending June 30,	Total OPEB Obligation	Plan Net Position	Net OPEB Liability (UAAL)	Covered Payroll	Ratio of UAAL to Covered Payroll
2018	\$ 244,759	\$ 91,250	\$ 153,509	\$ 118,774	129.24%
2019	255,630	107,810	147,820	119,090	124.12
2020	245,509	118,479	127,030	118,014	107.64
2021	251,293	126,495	124,798	125,676	99.30

Source: City of Palo Alto 2020-21 ACFR.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

For information concerning the City's OPEB obligations, including descriptions of the actuarial methods and assumptions, please see APPENDIX B—ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2021, Note 12.

### Debt Obligations

*General Obligation Bonds.* Other than the Prior Bonds, the City has no outstanding general obligation bonds.

*Short-Term General Fund-Secured Obligations.* The City has no outstanding short-term obligations secured by its general fund.

*Long-Term General Fund-Secured Obligations.* On June 5, 2018, the City caused the execution and delivery of its \$8,970,000 City of Palo Alto 2018 Certificates of Participation (Capital Improvement Project; 2002B Refinancing) (Federally Taxable) (Green Bonds) (the "2018 Certificates") to (a) finance the costs of the renovation of the Palo Alto Municipal Golf Course, and (b) prepay, on a current basis, the outstanding City of Palo Alto Certificates of Participation (Civic Center Refinancing and Downtown Parking Improvements Project), Series 2002B (Taxable). Principal payments are due annually on November 1 and interest payments are due semi-annually on May 1 and November 1 at an average rate of 4.10 percent. The City's average annual payments with respect to the certificates is \$530,000 and the certificates mature on November 1, 2047.

On March 21, 2019, the City caused the execution and delivery of its \$26,785,000 City of Palo Alto 2019 Certificates of Participation, Series A (California Avenue Parking Garage) (Tax-Exempt) (the "2019A

Certificates”), and its \$10,585,000 2019 Certificates of Participation, Series B (California Avenue Parking Garage) (Federally Taxable) (the “2019B Certificates”), to finance the costs of the construction of a 636 space parking garage. Principal payments are due annually on November 1 and interest payments are due semi-annually on May 1 and November 1 at an average rate of 4.76 percent. The City’s average annual payments with respect to the certificates is \$2,384,515.88 and the certificates mature on November 1, 2048.

On April 7, 2021, the City caused the execution and delivery of its \$101,505,000 City of Palo Alto 2021 Certificates of Participation (Public Safety Building) (the “2021 Certificates”), to finance the costs of a public safety building. Principal payments are due annually on November 1 and interest payments are due semi-annually on May 1 and November 1 at an average rate of 2.47 percent. The City’s average annual payments with respect to the certificates is \$4,948,912.05 and the certificates mature on November 1, 2050.



The following tables shows the City's total general fund-secured debt service obligations, including the 2018 Certificates, the 2019A Certificates, the 2019B Certificates and the 2021 Certificates.

**TABLE B15**  
**CITY OF PALO ALTO**  
**DEBT SERVICE REQUIREMENTS ON GENERAL FUND-SECURED OBLIGATIONS**

Year Ending November 1	2018 Certificates	2019A Certificates	2019B Certificates	2021 Certificates	Total
2022	\$ 531,791.00	\$ 1,649,250.00	\$ 738,248.70	\$ 2,926,712.50	\$ 5,846,002.20
2023	530,707.00	2,013,750.00	373,315.80	5,061,712.50	7,979,485.30
2024	529,267.00	2,009,250.00	373,315.80	5,064,962.50	7,976,795.30
2025	532,317.50	2,013,250.00	373,315.80	5,067,712.50	7,986,595.80
2026	529,814.00	2,010,250.00	373,315.80	5,069,712.50	7,983,092.30
2027	531,916.00	2,010,500.00	373,315.80	5,075,712.50	7,991,444.30
2028	533,429.00	2,013,750.00	373,315.80	5,080,212.50	8,000,707.30
2029	529,453.00	2,009,750.00	373,315.80	5,082,962.50	7,995,481.30
2030	529,653.00	2,013,750.00	373,315.80	5,083,712.50	8,000,431.30
2031	529,453.00	2,010,250.00	373,315.80	5,072,212.50	7,985,231.30
2032	533,853.00	2,009,500.00	373,315.80	5,060,412.50	7,977,081.30
2033	532,653.00	2,011,250.00	373,315.80	5,061,862.50	7,979,081.30
2034	531,053.00	2,010,250.00	373,315.80	5,060,312.50	7,974,931.30
2035	529,053.00	2,011,500.00	373,315.80	5,065,762.50	7,979,631.30
2036	531,281.00	2,009,750.00	373,315.80	5,047,912.50	7,962,259.30
2037	532,891.00	2,010,000.00	373,315.80	5,049,212.50	7,965,419.30
2038	533,883.00	2,012,000.00	373,315.80	5,049,012.50	7,968,211.30
2039	529,257.00	2,010,500.00	373,315.80	5,047,312.50	7,960,385.30
2040	529,219.00	2,010,500.00	373,315.80	5,049,112.50	7,962,147.30
2041	533,563.00	2,011,750.00	373,315.80	5,049,312.50	7,967,941.30
2042	531,683.00	2,014,000.00	373,315.80	5,052,912.50	7,971,911.30
2043	529,170.00	2,012,000.00	373,315.80	5,054,812.50	7,969,298.30
2044	531,024.00	2,010,750.00	373,315.80	5,054,712.50	7,969,802.30
2045	532,034.00	—	2,383,315.80	5,057,700.00	7,973,049.80
2046	532,200.00	—	2,380,860.70	5,063,137.50	7,976,198.20
2047	531,522.00	—	2,384,707.26	5,061,212.50	7,977,441.76
2048	—	—	2,384,420.36	5,062,037.50	7,446,457.86
2049	—	—	—	5,065,500.00	5,065,500.00
2050	—	—	—	5,066,487.50	5,066,487.50
Total	<u>\$13,812,139.50</u>	<u>\$45,897,500.00</u>	<u>\$18,484,500.42</u>	<u>\$144,664,362.50</u>	<u>\$222,858,502.42</u>

### Other Obligations

The City has certain other outstanding obligations including utility revenue bonds.

See APPENDIX B—ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 20, 202—Notes to Basic Financial Statements—NOTE 7.

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**APPENDIX C**

**ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY  
FOR THE YEAR ENDED JUNE 30, 2021**

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# CITY OF PALO ALTO CALIFORNIA



## ANNUAL COMPREHENSIVE FINANCIAL REPORT



**FISCAL YEAR ENDED  
JUNE 30, 2021**







CITY OF  
**PALO  
ALTO**

# Fiscal Year 2021 Annual Comprehensive Financial Report

City of Palo Alto, CA  
Fiscal Year Ended June 30, 2021

## City Council

Tom DuBois, Mayor

Patrick Burt, Vice Mayor

Alison Cormack

Eric Filseth

Lydia Kou

Greer Stone

Greg Tanaka

Ed Shikada, City Manager

Kiely Nose, Director of Administrative Services/Chief Financial Officer

Prepared by: Administrative Services Department





**CITY OF PALO ALTO**  
**For the Year Ended June 30, 2021**

***Table of Contents***

	<b><i>Page</i></b>
<b>INTRODUCTORY SECTION:</b>	
Transmittal Letter .....	i
City Officials .....	vii
Organizational Structure .....	viii
Administrative Services Organization .....	ix
GFOA Certificate of Achievement for Excellence in Financial Reporting .....	x
<b>FINANCIAL SECTION:</b>	
<b>Independent Auditor's Report .....</b>	<b>1</b>
<b>Management's Discussion and Analysis</b>	
(Required Supplementary Information – Unaudited).....	5
<b>Basic Financial Statements</b>	
<b>Government-wide Financial Statements:</b>	
Statement of Net Position .....	31
Statement of Activities .....	33
<b>Governmental Fund Financial Statements:</b>	
Balance Sheet .....	35
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position - Governmental Activities .....	36
Statement of Revenues, Expenditures and Changes in Fund Balances .....	37
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – Governmental Activities .....	38
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund .....	39
<b>Proprietary Fund Financial Statements:</b>	
Statement of Net Position .....	40
Statement of Revenues, Expenses and Changes in Fund Net Position .....	42
Statement of Cash Flows .....	44
<b>Fiduciary Fund Financial Statement:</b>	
Statement of Fiduciary Net Position .....	46
Statement of Changes in Fiduciary Net Position .....	47
<b>Index to the Notes to the Basic Financial Statements .....</b>	<b>49</b>
<b>Notes to the Basic Financial Statements .....</b>	<b>51</b>
<b>Required Supplementary Information:</b>	
Schedule of Changes in Net Pension Liability and related Ratios – Miscellaneous Plan .....	109
Schedule of Pension Contributions – Miscellaneous Plan .....	110

**CITY OF PALO ALTO**  
**For the Year Ended June 30, 2021**

***Table of Contents (Continued)***

	<b><i>Page</i></b>
<b>Required Supplementary Information:</b>	
Schedule of Changes in Net Pension Liability and Related Ratios – Safety Plan .....	111
Schedule of Pension Contributions – Safety Plan .....	112
Schedule of Changes in Net OPEB Liability and Related Ratios .....	113
Schedule of Employer OPEB Contributions .....	114
 <b>Supplementary Information:</b>	
Non-Major Governmental Funds:	
Combining Balance Sheet.....	115
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	116
Non-Major Special Revenue Funds:	
Combining Balance Sheet.....	118
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	120
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual .....	122
Non-Major Debt Service Funds:	
Combining Balance Sheet.....	128
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	129
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual .....	130
Non-Major Permanent Fund:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.....	132
Internal Service Funds:	
Combining Statement of Fund Net Position.....	134
Combining Statement of Revenues, Expenses and Changes in Fund Net Position .....	135
Combining Statement of Cash Flows.....	136
Fiduciary Funds:	
Combining Statement of Fiduciary Net Position – Custodial Funds.....	138
Combining Statement of Changes in Fiduciary Net Position – Custodial Funds .....	139

**CITY OF PALO ALTO**  
**For the Year Ended June 30, 2021**

***Table of Contents (Continued)***

	<b><i>Page</i></b>
<b>STATISTICAL SECTION:</b>	
<b>Financial Trends:</b>	
Net Position by Component.....	143
Changes in Net Position .....	144
Fund Balances of Governmental Funds .....	146
Changes in Fund Balances of Governmental Funds.....	148
<b>Revenue Capacity:</b>	
Electric Operating Revenue by Source.....	149
Power Supply Resources .....	150
Supplemental Disclosure for Water Utilities .....	151
Supplemental Disclosure for Gas Utilities.....	152
Assessed Value of Taxable Property .....	153
Property Tax Rates, All Overlapping Governments .....	154
Property Tax Levies and Collections .....	155
Principal Property Taxpayers .....	156
Assessed Valuation and Parcels by Land Use .....	157
Per Parcel Assessed Valuation of Single Family Residential .....	158
<b>Debt Capacity:</b>	
Ratio of Outstanding Debt by Type.....	159
Computation of Direct and Overlapping Debt.....	160
Computation of Legal Bonded Debt Margin .....	161
Revenue Bond Coverage.....	162
<b>Demographic and Economic Information:</b>	
Taxable Transactions by Type of Business.....	163
Demographic and Economic Statistics.....	164
Principal Employers.....	165
<b>Operating Information:</b>	
Operating Indicators by Function/Program.....	166
Capital Asset Statistics by Function/Program .....	168
Full-Time Equivalent City Government Employees by Function.....	170





# Transmittal Letter.....



## OFFICE OF THE CITY MANAGER

250 Hamilton Ave, 7th Floor  
Palo Alto, CA 94301  
650.329.2692

November 15, 2021

### THE HONORABLE CITY COUNCIL

Palo Alto, California

### ANNUAL COMPREHENSIVE FINANCIAL REPORT

YEAR ENDED JUNE 30, 2021

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

I am pleased to present the Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2021 in accordance with Article III, Section 16 and Article IV, Section 13 of the City of Palo Alto Charter. The format and content of this ACFR complies with the principles and standards of accounting and financial reporting adopted by the Governmental Accounting Standards Board (GASB), and contains all information needed for readers to gain a reasonable understanding of City of Palo Alto (City) financial affairs. Management takes sole responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. The objective of internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The City's financial statements have been audited by Macias Gini & O'Connell LLP, Certified Public Accountants (MGO). The goal of the audit is to obtain reasonable assurance that the financial statements are free of material misstatements and are fairly presented in conformity with generally accepted accounting principles (GAAP). MGO issued an unmodified opinion for the fiscal year ended June 30, 2021. Their report is presented as the first component of the financial section of this report. While MGO has issued an unmodified opinion for this report, information and the contents of this report is the responsibility of the City.

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

## **CITY OF PALO ALTO PROFILE**

The City was incorporated in 1894 and named after a majestic coastal redwood tree which lives along the San Francisquito Creek where early Spanish explorers settled. Located between the cities of San Francisco and San Jose, the City is a largely built-out community of approximately 66,573 residents. The City delivers a full range of municipal services and public utilities under the Council-Manager form of government and offers an outstanding quality of life for its residents. It covers an area of twenty-six square miles and has dedicated almost one-half of the area to open spaces of parks and wildlife preserves. Public facilities include five libraries, four community centers, a cultural arts center, an adult and children's theater, a junior museum and zoo, an airport, and a golf course. The City provides a diverse array of services for seniors and youth, an extensive continuing education program, concerts, exhibits, team sports and special events. The independent Palo Alto Unified School District (PAUSD) has achieved State and national recognition for the excellence of its programs.

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

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

## **FISCAL/ECONOMIC CONDITIONS AND OUTLOOK**

The City declared a state of emergency in March 2020 and the world began to grapple with the impacts of the novel coronavirus (COVID-19), a global pandemic, and the ensuing public health emergency. While the Fiscal Year 2020 Adopted Budget saw the most significant immediate impacts as shelter in place orders were instituted in the County of Santa Clara and State of California, work on Economic Recovery began in Fall 2020, prior to the City Council setting this priority in January 2021. These financials reflect the one full year of the economic impacts of the pandemic – the stark, immediate results stemming from shelter in place orders through promising third calendar quarter results and widespread distribution of the COVID-19 vaccine. Throughout these times, several conversations with the City Council occurred in 2020 and 2021 that resulted in the Community and Economic Recovery workplan. This workplan includes several priority projects that connect the City Council's Priorities and ensure organization support and capacity to further recovery efforts.

**Employment Trends:** The City is located in the heart of Silicon Valley and is adjacent to Stanford University, one of the premier institutions of higher education in the nation which has produced much of the talent that founded many successful high-tech companies in Palo Alto and Silicon Valley. With varied historically and relatively stable employers such as Lucille Packard Children's Hospital, Stanford Health Care, Stanford University, Veteran's Affairs Palo Alto Healthcare System, Palo Alto Medical Foundation, Palo Alto Unified School District, Stanford Shopping Center and businesses such as Hewlett-Packard, VMware, Tesla, SAP labs Inc. and Space Systems Loral, Palo Alto has enjoyed diverse employment and revenue bases. As of June 2021, the City's unemployment rate was 3.2 percent



compared to the prior year level of 5.7 percent. The County of Santa Clara's unemployment rate was 5.2 percent compared to the prior year level of 10.7 percent. The State of California's unemployment rate was 8.0 percent, compared to the prior year level of 14.9 percent. These levels are lower than FY 2020 but are still significantly higher than recent years as many businesses were forced to adjust their workforce and operations were severely restricted by the COVID-19 shelter in place orders.

**Real Estate Market:** The 2020-2021 County of Santa Clara Assessor's Annual Report noted that the County of Santa Clara's annual assessment roll increased by \$35.5 billion to \$551.5 billion, a 6.87 percent increase over the prior year. Palo Alto's assessment roll represents 7.69 percent of the County of Santa Clara's assessment roll and grew 7.77 percent over the prior year to \$42.4 billion. Per the Santa Clara County Association of Realtors, home prices in Palo Alto remain well above the County of Santa Clara's average at \$4.0 million as of second quarter 2021. According to Newmark, a company that tracks real estate trends throughout the county, the average asking rent in Palo Alto for commercial space during the second quarter of 2021 was \$6.88 per square foot. Based on this report, leasing activities are rebounding, after a sluggish start in calendar year 2021. Despite continuing struggles between executives and employees as it relates to the push to return to offices, the continued focus on distribution of the vaccine, and increase confidence in the second half of calendar year 2021 will influence how quickly leasing activities will recover.

**Local Trends:** Mixed economic opinions and indicators existed at the time the FY 2021 budget was developed. It is important to recall that the actions and leadership of the City Council quickly recognized and worked to address these impacts. On March 16, 2020, the State of California and the County of Santa Clara ordered Shelter in Place directives to slow the spread of COVID-19, which continued into FY 2021. Prior to COVID-19 and after, the Bay Area economy had sustained better performance than the state and the nation. Disruptions caused by COVID-19 are both widespread and significant to Palo Alto, the state and nation's economic environment and community. The City's unemployment has been elevated since the pandemic hit the region, however, the rate is significantly lower than national, State of California, and County of Santa Clara's unemployment rates. Job growth is tepid. Economically sensitive revenue sources in FY 2020 and/or FY 2021, such as transient occupancy tax, sales and utility user's taxes have significantly declined while documentary transfer and property taxes have been resilient with a healthy growth, however, future years will be monitored closely.

**General Fund Balancing and Results:** The FY 2021 budget was developed as the world grappled with COVID-19, a global pandemic with unknown financial implications impacting regional, national and global economies in response to shelter in place orders and related social distancing restrictions. The City Council provided direction to build the FY 2021 budget assuming a loss of \$39.0 million in General Fund tax revenues in FY 2021. Overall, the City's General Fund was adopted to collect \$196.4 million in revenues and \$196.9 million in expenditure, a 15 percent reduction compared to the FY 2020 Adopted Operating Budget. In the General Fund, full-time staffing was reduced from 574.43 FTE to 509.91 FTE (a reduction of 64.52 FTE) and part-time staffing was reduced from 81.31 FTE to 55.61 FTE (a reduction of 25.70 FTE). Prioritizing essential services and reducing or eliminating discretionary services was reflected in this budget and achieved through compiling feedback throughout the May and June budget sessions with the City Council. Notwithstanding the service delivery reductions reflected in this budget, the budget balancing strategy ensured that the City continued to proactively pay for long term liabilities, maintained capital investments in its most critical infrastructure, provided resources for the City to successfully adapt from shelter in place to future service delivery models, and established funding to ensure those service delivery transitions.

Despite the financial constraints, the City maintained its commitment to addressing its long-term liabilities. Contributions towards the City's long-term pension obligations and other post-employment obligations were maintained this fiscal year including payment to trust funds. These were made possible by cost containment strategies utilized across the organization over the past several years. In addition to the City's past practice of planning for staffing costs contained in the agreed upon labor terms outlined in memorandums of agreement, CalPERS-determined retirement contribution levels, and a vacancy factor in the General Fund, proactive pension funding contributions to the City's irrevocable Section 115 Pension Trust Fund were achieved in FY 2021. In the General Fund, this resulted in \$3.0 million in additional contributions from various departments and reflects what retirement costs would be if the "normal cost" of contributions was budgeted at a 6.2 percent discount rate (CalPERS is currently at a 7.0 percent discount rate). As of June 30, 2021, the City's irrevocable pension trust fund has a total of \$32.3 million in Citywide contributions (excluding earnings from investments), of which \$21.0 million is from the General Fund.

As the community grappled with the various impacts of COVID-19, the City took a hard look at both the operating and capital budgets and prioritized essential services, pared back discretionary items, and continued to monitor impacts the global pandemic had on the City's major revenue sources and economic sectors. In addition to these challenges, the City remained focused on maintaining high quality services with the resources available, while addressing issues facing the City as well as the state, and nation. These issues were reflected in the setting of Council priorities for 2021:

- Economic Recovery
- Housing for Social and Economic Balance
- Social Justice
- Climate Change - Protection and Adaptation

Progress continues to be made on these priorities, which require long-term strategies. The FY 2021 budget established a number of COVID-19 related reserves to address needs of the City organization and the community during shelter in place, as well as planning for transition to the "new normal" after restrictions were lessened.

In FY 2014, the City Council approved a \$125.8 million Infrastructure Plan (IP), which included projects such as a new Public Safety Building, replacement of two Fire Stations, a Bike and Pedestrian plan, and two parking garages. As part of the development of the 2021-2025 Capital Improvement Plan (CIP), the IP projects were updated for scope increases and cost escalations, resulting in a revised Infrastructure Plan of \$260.5 million. These projects will be funded partially by debt to be repaid with voter-approved increases of 3.5 percent in the transient occupancy tax (TOT) rate and from other sources such as impact fees and Stanford University Medical Center development agreement monies. The 2021-2025 CIP assumed the opening of new Marriott hotels in FY 2021; however, as a result of the public health emergency and its impact on revenues, the annual TOT funding is not estimated to cover the cost of the debt service related to the IP projects for several years. Staff is continually revising these figures and adjusting and planning for these impacts in order to maintain funding for the City's most critical infrastructure improvements.

Due to the COVID-19 pandemic, the City Council aimed to provide economic relief for residential and commercial customers by directing staff to maintain flat rates without compromising the safety and integrity of the utility systems. Rates increased in 2021 for gas, stormwater, and fiber services. In general, the size and timing of rate adjustments take into account current and future revenue requirements and reserve levels for needs such as increasing costs of commodity purchases, capital





construction costs, and contractually obligated increases to compensate for inflation, usually based on the annual change to the Bay Area consumer price index (CPI).

**Long Range Financial Forecast:** The City produces a 10-year General Fund Long Range Financial Forecast (LRFF) annually. This comprehensive report analyzes local, state, and federal economic conditions, short and long-term revenue and expense trends, and addresses challenges such as funding long-term pension and healthcare liabilities and infrastructure needs. The forecast is designed to highlight finance issues which the City can address proactively. Moreover, it is a tool that allows policymakers an opportunity to prioritize funding needs over time. It sets the tone for the annual budget process and is one of the many tools and reports that Council uses for financial planning. The LRFF was developed prior to the COVID-19 pandemic, at a time when national, state, and local economic indicators were mixed. Unemployment remained low, job growth slowed, and international trade had negative impacts on economic data.

The FY 2021-2030 LRFF was presented to the Finance Committee in December 2019 and approved by the City Council in February 2020. The forecast anticipated a small surplus in FY 2021 followed by annual gaps in FY 2022 through 2025, before the revenues outpaced the expenses in FY 2026 and beyond. Staff identified and recommended a course of action that would structurally balance the General Fund in FY 2021 and largely balance the General Fund on an ongoing basis. The FY 2021 budget included a proactive pension funding contribution to the City's irrevocable Section 115 Pension Trust Fund and reflected what retirement costs would be if the "normal cost" of contributions was budgeted at a 6.2 percent discount rate compared to the CalPERS estimated 7.0 percent discount rate. Subsequent to the development of the LRFF, revenue and expense numbers were revised based on estimated impacts from the pandemic to recalculate the budget and reflect changes in revenues and expenses to incorporate policy direction from City Council issued after the LRFF to prioritize essential services and pare back discretionary services as discussed in the General Fund Balancing and Results section above.

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

### **SIGNIFICANT EVENTS AND ACCOMPLISHMENTS**



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

- Applied for and awarded the Bike Friendly Communities Gold-level Status.
- Received Santa Clara County Supervisor's Medal for Outstanding Service for staff contributions and efforts in areas of auto theft and community service.
- Received the Reliable Public Power Provider (RP3) award from American Public Power Association (APPA) for industry-recognized leading practices in reliability & safety.

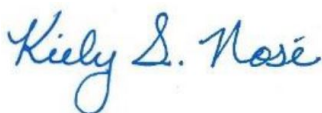
- Received the Smart Energy Provider Award from American Public Power Association (APPA), which recognizes utilities for demonstrating commitment and accomplishment in smart energy program planning; energy efficiency and distributed energy resources; environmental and sustainability programs; and communication and customer experience.
- Launched a robust Race & Equity framework and initiative and partnered with local community organizations and stakeholders.
- Established the Uplift Local program to expand outdoor dining, retail, and more, generally supporting the business community and connecting the broader Palo Alto community together during challenging economic and public health emergencies. Continued to support key business districts such as Downtown Palo Alto, California Avenue, and the Stanford Shopping Center.
- Responded to the COVID-19 pandemic by participating in the City's Emergency Operations Center and quickly developing policies and protocols to protect firefighters and patients by minimizing exposure.
- Opened Foothills Nature Preserve to all visitors and partnered with the Environmental Volunteers and other volunteers to create a welcome video for the Preserve.
- Awarded the construction contract for the Public Safety Building, a 2014 Infrastructure Plan Project, and associated debt financing.
- Substantially completed the Junior Museum and Zoo rebuilding project after 10 years in the making, with all new exhibits designed by JMZ staff, a re-imagined zoo with new animals, and a focus on inclusion, accessibility, and the highest standards in animal care. It is expected to open in Fall 2021.
- Completed construction of the new California Avenue Area Parking Garage project.

**Awards:** During the past year, the City received an award for the prior fiscal year (2020) ACFR from the Government Finance Officers Association (GFOA) for “excellence in financial reporting.” The 2021 ACFR will be submitted to the GFOA award program to be considered for this distinguished financial reporting award.

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

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

Respectfully submitted,



KIELY NOSE  
Chief Financial Officer



ED SHIKADA  
City Manager



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

### **City Council**

Tom DuBois, ***Mayor***  
Patrick Burt, ***Vice-Mayor***  
Alison Cormack  
Eric Filseth  
Lydia Kou  
Greer Stone  
Greg Tanaka

### **Finance Committee**

Alison Cormack, ***Chair***  
Patrick Burt  
Eric Filseth

### **Policy and Services Committee**

Lydia Kou, ***Chair***  
Greer Stone  
Greg Tanaka

### **Council-Appointed Officers**

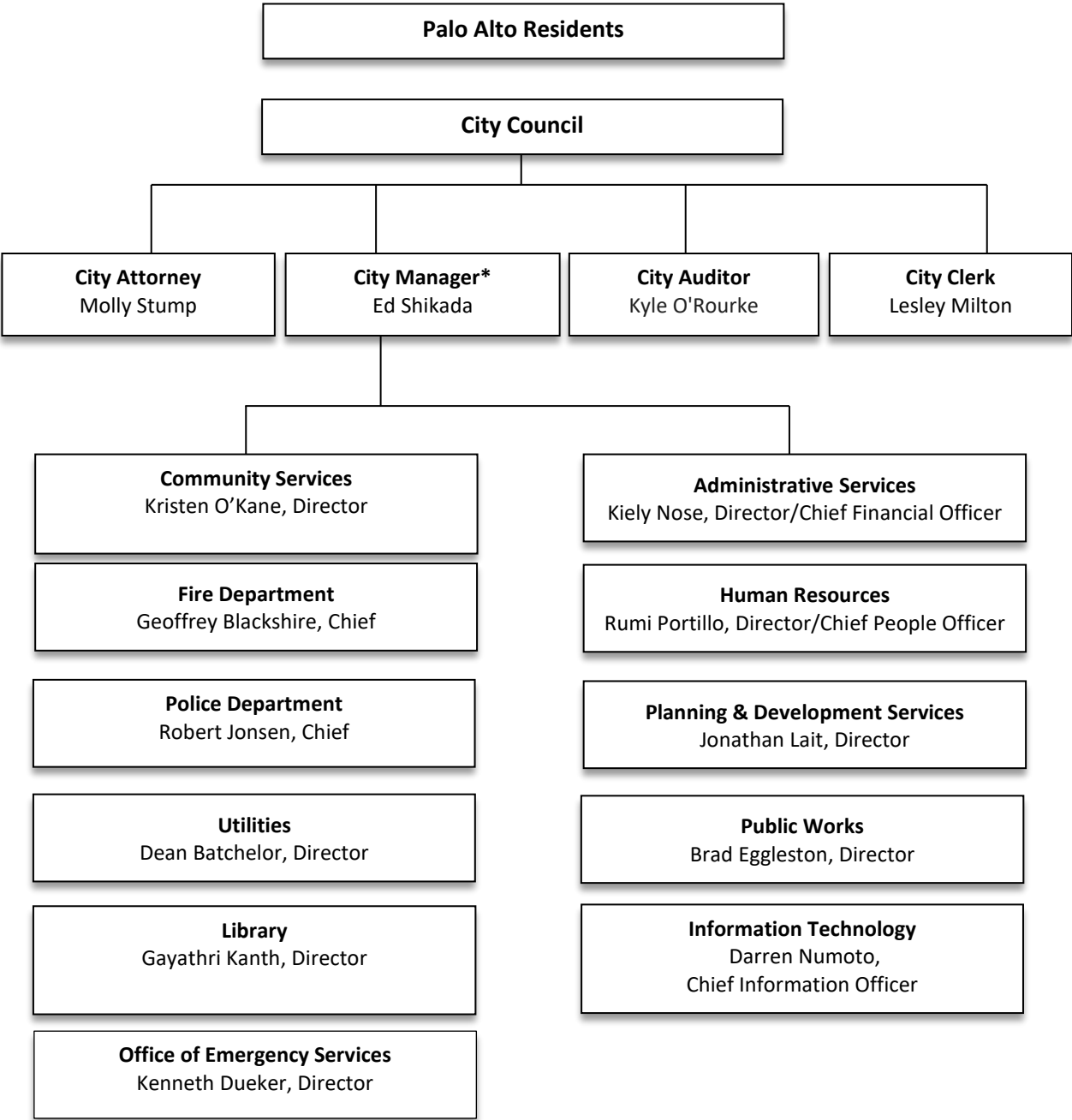
**City Manager**  
Ed Shikada

**City Attorney**  
Molly Stump

**City Clerk**  
Lesley Milton

**City Auditor**  
Kyle O'Rourke

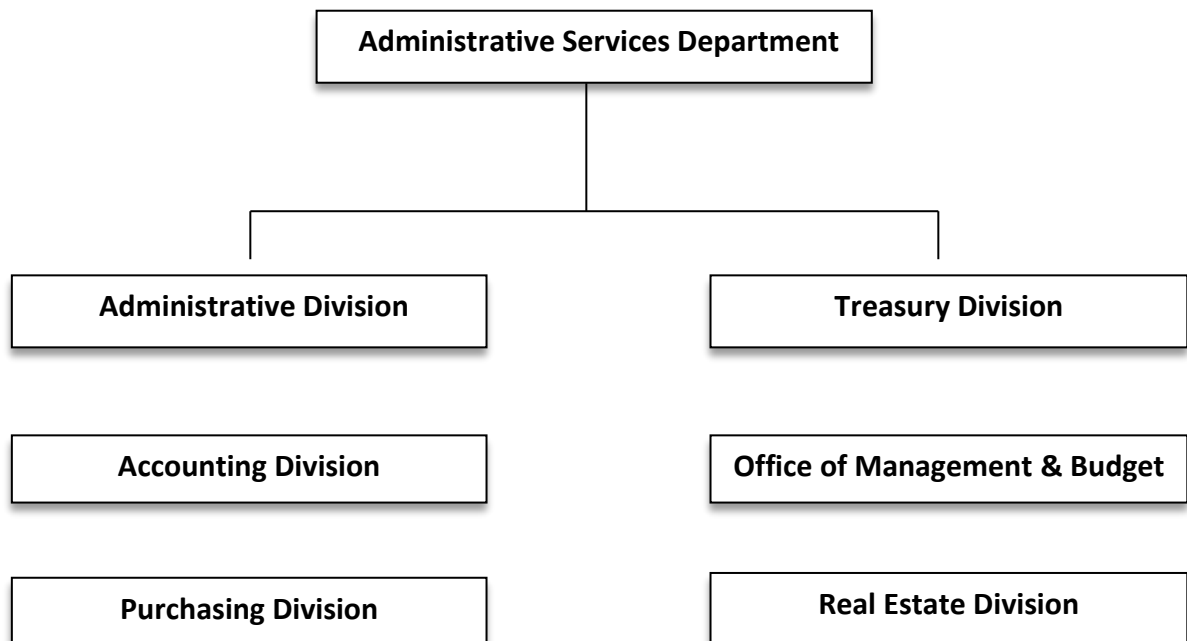
City of Palo Alto Organization .....



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



## *Administrative Services Organization .....*



### **Mission Statement**

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

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



Government Finance Officers Association

## Certificate of Achievement for Excellence in Financial Reporting

Presented to

**City of Palo Alto  
California**

For its Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended

June 30, 2020

*Christopher P. Morill*

Executive Director/CEO



## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Palo Alto, California (City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As discussed in Note 1(n) to the financial statements, as of July 1, 2020, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinions are not modified with respect to this matter.

## ***Other Matters***

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

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

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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



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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2021 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Walnut Creek, California  
November 15, 2021

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# Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis (MD&A) provides an overview of the City of Palo Alto's financial performance for the fiscal year ended June 30, 2021. To obtain a complete understanding of the City's financial condition, this document should be read in conjunction with the accompanying Transmittal Letter and Basic Financial Statements. Certain balances for prior year are reclassified to conform with current year presentation.

## FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Palo Alto (City) exceeded its liabilities and deferred inflows of resources at the close of Fiscal Year (FY) 2021 by \$1.2 billion. Of this amount, \$24.1 million represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position is \$1.2 billion, an increase of \$4.8 million, or 0.4 percent over the prior fiscal year. Of this amount, \$22.2 million was generated by business-type activities and offset by a decrease of \$17.4 million by governmental activities.
- The City's total outstanding long-term debt increased by \$99.4 million during the current fiscal year due to the issuance of Certificates of Participation (COPs) amounting to \$101.5 million plus a \$6.5 million premium to finance the construction of a public safety building, offset by the scheduled debt retirements.
- At the close of FY 2021, the City's governmental funds reported total fund balances of \$365.6 million, an increase of \$98.9 million from the prior year. Approximately 13.4 percent of this amount, or \$49.1 million, is unassigned fund balance and available for spending at the City's discretion.
- At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned and unassigned components of fund balance) for the General Fund was \$66.3 million, or 38.1 percent of total General Fund expenditures, including transfers.
- In May 2021, the City received the first half of its total \$13.7 million American Rescue Plan Act of 2021 (ARPA) allocation. The first distribution of \$6.9 million was recorded as unearned revenue at June 30, 2021 as the funds are not earned nor spent. The second distribution is expected in May 2022.
- The City implemented the Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, effective fiscal year ended June 30, 2021. The statement establishes criteria for identifying fiduciary activities of all state and local governments. The City evaluated all funds and activities in accordance with the statement and determined that the Cable Joint Powers Authority and the assessment district activities previously reported as agency funds should be reported as custodial funds.

## OVERVIEW OF THE ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR)

The ACFR is presented in five sections:

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

## ***Government-wide Financial Statements***

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

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

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

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

### ***Governmental Activities***

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

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

### ***Business-type Activities***

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

The Government-wide Financial Statements can be found on pages 31-33 of this report.

## ***Fund Financial Statements***

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the determination of which funds are major funds, was established by GASB Statement No. 34. Each major fund is presented individually and all non-major funds are combined in a single column on each fund statement. Supplemental schedules display these non-major funds in more detail. The General Fund is always considered a major fund, but other funds may change from year to year as a result of changes in the pattern of City activities.

The Fund Financial Statements display the City's operations in more detail than the Government-wide Financial Statements. Fund Financial Statements include Governmental, Proprietary, and Fiduciary Funds.

### ***Governmental Funds***

Governmental Fund Financial Statements are prepared on the modified accrual basis of accounting, which means they measure only current financial resources and uses. Capital assets and other long-term assets, along with long-term liabilities, are presented only in the Government-wide Financial Statements. In FY 2021, the City had two major governmental funds - the General Fund and the Capital Projects Fund. Data from the other governmental funds are combined into a single column for presentation. Individual fund data for each of these non-major governmental funds is provided in the Supplemental Information section of this report.

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

The Governmental Fund Financial Statements can be found on pages 35-39 of this report.

### ***Proprietary Funds***

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

The City's Internal Service Funds provide goods and services exclusively to the City's governmental and business-type activities. Internal Service Funds cannot be considered major funds because their revenues are derived from other City funds. Revenues between funds are eliminated in the Government-wide Financial Statements, and any related profits or losses in Internal Service Funds are returned to the activities in which they were created, along with any residual net position of the Internal Service Funds.

The Proprietary Fund Financial Statements can be found on pages 40-45 of this report.

### ***Fiduciary Funds***

Fiduciary funds are used to account for assets held by the City acting in a fiduciary capacity for other entities and individuals. Custodial Funds are fiduciary funds used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private purpose trust funds. These include balances and activities of the Cable Joint Powers Authority and the assessment district. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate fiduciary fund financial statements.

The Fiduciary Fund Financial Statement can be found on pages 46 and 47 of this report.

### ***Notes to the Basic Financial Statements***

The Notes to the Basic Financial Statements provide additional information that is necessary to acquire a full understanding of the data provided in the Government-wide and Fund Financial Statements. The Notes to the financial statements can be found on pages 51-108 of this report.

## Required and Other Supplemental Information

The Required Supplementary Information related to the City's pension and Other Post-Employment Benefits (OPEB) plans is included after the Notes to the Basic Financial Statements on pages 109-114. The combining statements and individual fund statements and schedules referred to earlier in connection with non-major Governmental Funds and Internal Service Funds are presented immediately following the Required Supplementary Information and can be found on pages 115-139 of this report.

## FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

This section focuses on the City's net position and changes in net position of its governmental and business-type activities for the fiscal year ended June 30, 2021. As noted earlier, the City's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$1.2 billion at the end of the fiscal year, an increase in net position of \$4.8 million.

### CONDENSED STATEMENT OF NET POSITION

*As of June 30*  
(in millions)

	Governmental Activities		Business-type Activities		Government-wide Totals	
	2021	2020	2021	2020	2021	2020
Cash and investments	\$ 443.4	\$ 342.8	\$ 285.6	\$ 277.4	\$ 729.0	\$ 620.2
Other assets	76.6	60.5	47.7	52.8	124.3	113.3
Capital assets	602.0	596.3	708.5	693.2	1,310.5	1,289.5
<b>Total Assets</b>	<b>1,122.0</b>	<b>999.6</b>	<b>1,041.8</b>	<b>1,023.4</b>	<b>2,163.8</b>	<b>2,023.0</b>
Unamortized loss from refunding		-	0.1	0.2	0.1	0.2
Pension and OPEB related	60.8	55.8	24.1	20.9	84.9	76.7
<b>Total Deferred Outflows of Resources</b>	<b>60.8</b>	<b>55.8</b>	<b>24.2</b>	<b>21.1</b>	<b>85.0</b>	<b>76.9</b>
Net pension and OPEB liabilities	438.2	416.3	159.7	153.7	597.9	570.0
Long-term debt	217.5	112.5	68.9	74.5	286.4	187.0
Other liabilities	87.6	61.5	23.8	21.7	111.4	83.2
<b>Total Liabilities</b>	<b>743.3</b>	<b>590.3</b>	<b>252.4</b>	<b>249.9</b>	<b>995.7</b>	<b>840.2</b>
Pension and OPEB related	16.3	24.5	6.4	9.6	22.7	34.1
<b>Total Deferred Inflows of Resources</b>	<b>16.3</b>	<b>24.5</b>	<b>6.4</b>	<b>9.6</b>	<b>22.7</b>	<b>34.1</b>
<b>Net Position</b>						
Net investment in capital assets	480.6	497.4	642.0	621.3	1,122.6	1,118.7
Restricted	80.3	73.3	3.4	4.1	83.7	77.4
Unrestricted	(137.7)	(130.1)	161.8	159.6	24.1	29.5
<b>Total Net Position</b>	<b>\$ 423.2</b>	<b>\$ 440.6</b>	<b>\$ 807.2</b>	<b>\$ 785.0</b>	<b>\$ 1,230.4</b>	<b>\$ 1,225.6</b>

The largest portion of the City's net position (91.2 percent) is its net investment in capital assets such as land, buildings, infrastructure and vehicles, less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the City's net position (6.8 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$24.1 million, representing 2.0 percent of the City's net position, is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

Overall, the City has positive unrestricted net positions for the government on a combined basis, considering both governmental activities and business-type activities. The unrestricted net position for governmental activities is negative due to recognition of the net pension liabilities, as required by GASB Statement No. 68, and net OPEB liabilities, as required by GASB Statement No. 75. The \$137.7 million net deficit for governmental activities includes the \$303.8 million net impact of net pension liabilities and its related deferred outflows of resources and \$89.9 million net impact of net OPEB liabilities and its related deferred outflows of resources and deferred inflows of resources. Governmental activities' unrestricted net position, excluding these impacts, is \$256.0 million.

Components of the \$4.8 million increase in total net position are discussed in the following sections for governmental activities and business-type activities.

### ***Governmental Activities – Net Position***

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

<b>CONDENSED STATEMENT OF NET POSITION</b>			
<b>GOVERNMENTAL ACTIVITIES</b>			
<i>As of June 30</i>			
<i>(in millions)</i>			
	<b>2021</b>	<b>2020</b>	<b>Increase/ (Decrease)</b>
Cash and investments	\$ 443.4	\$ 342.8	\$ 100.6
Other assets	76.6	60.5	16.1
Capital assets	602.0	596.3	5.7
<b>Total Assets</b>	<b>1,122.0</b>	<b>999.6</b>	<b>122.4</b>
Pension and OPEB related	60.8	55.8	5.0
<b>Total Deferred Outflows of Resources</b>	<b>60.8</b>	<b>55.8</b>	<b>5.0</b>
Net pension and OPEB liabilities	438.2	416.3	21.9
Long-term debt	217.5	112.5	105.0
Other liabilities	87.6	61.5	26.1
<b>Total Liabilities</b>	<b>743.3</b>	<b>590.3</b>	<b>153.0</b>
Pension and OPEB related	16.3	24.5	(8.2)
<b>Total Deferred Inflows of Resources</b>	<b>16.3</b>	<b>24.5</b>	<b>(8.2)</b>
Net investment in capital assets	480.6	497.4	(16.8)
Restricted	80.3	73.3	7.0
Unrestricted	(137.7)	(130.1)	(7.6)
<b>Total Net Position</b>	<b>\$ 423.2</b>	<b>\$ 440.6</b>	<b>\$ (17.4)</b>

The City's Governmental Activities total net position decreased \$17.4 million to \$423.2 million as of June 30, 2021 due to the following:

- Assets and Deferred Outflows of Resources
  - Cash and investments increased \$100.6 million mainly due to the issuance of COPs amounting to \$101.5 million plus \$6.5 million premium to finance the construction of a public safety building and an increase in restricted cash and investments held in the Public Agency Retirement Services Section 115 irrevocable trust (Section 115 Pension Trust).
  - Other assets increased \$16.1 million mainly due to an increase in notes receivable for the predevelopment and construction of multifamily rental housing reserved for occupancy by extremely low, very low and low-income households.
  - Capital assets increased \$5.7 million due to continued construction of the Highway 101 Pedestrian / Bicycle overpass, Public Safety Building, and California Avenue Parking Garage and offset by the retirements and depreciation.
  - Pension and OPEB related deferred outflows of resources increased \$5.0 million due to increase of pension related deferred outflows of resources of \$5.7 million offset by a decrease of OPEB related deferred outflows of resources of \$0.7 million.
- Liabilities and Deferred Inflows of Resources
  - Net pension and OPEB liabilities increased \$21.9 million due to increase in net pension liabilities of \$23.5 million offset by the decrease of net OPEB liabilities of \$1.6 million.
  - Long-term debt increased \$105.0 million due to issuance of COPs amounting to \$101.5 million plus \$6.5 premium to finance the construction of a public safety building, offset by the scheduled debt retirements.
  - Other liabilities increased \$26.1 million primarily due to \$6.9 million receipt of City's first of two distributions of the ARPA funding that was recorded as unearned revenue as the funds are not earned nor spent. Another factor driving the increase was the recording of a claim liability of \$12.6 million for a class action lawsuit.
  - Pension and OPEB related deferred inflows of resources decreased \$8.2 million due to decrease of \$5.8 million pension related inflows of resources and decrease of OPEB related deferred inflows of resources of \$2.4 million.
- Net position
  - Net investment in capital assets decreased \$16.8 million to \$480.6 million mainly due to current year depreciation for capital assets. Restricted net position increased \$7.0 million to \$80.3 million primarily due to increases of restricted cash and investments held in the Section 115 Pension Trust and debt service. Unrestricted net position is negative primarily due to the recognition of the net pension and OPEB liabilities as required by GASB Statements Nos. 68 and 75.



### ***Governmental Activities – Revenues***

The table below shows that Governmental Activities revenues totaled \$198.1 million in FY 2021, a decrease of \$15.2 million from prior year revenues of \$213.3 million.

<b>GOVERNMENTAL ACTIVITIES</b>			
<b><i>Revenues for the Year Ended June 30</i></b>			
<b>(in millions)</b>			
<b>Revenues by Source</b>	<b>2021</b>	<b>2020</b>	<b>Increase/ (Decrease)</b>
<b>Program Revenues:</b>			
Charges for services	\$ 55.5	\$ 57.1	\$ (1.6)
Operating grants and contributions	3.0	2.6	0.4
Capital grants and contributions	11.3	9.0	2.3
<b>Total Program Revenues</b>	<b>69.8</b>	<b>68.7</b>	<b>1.1</b>
<b>General Revenues:</b>			
Property tax	60.9	55.6	5.3
Sales tax	29.1	30.6	(1.5)
Utility user tax	14.6	16.1	(1.5)
Transient occupancy tax	5.2	18.6	(13.4)
Documentary transfer tax	10.6	6.9	3.7
Other tax	2.8	2.9	(0.1)
Investment earnings	4.9	13.8	(8.9)
Miscellaneous	0.2	0.1	0.1
<b>Total General Revenues</b>	<b>128.3</b>	<b>144.6</b>	<b>(16.3)</b>
<b>Total Revenues</b>	<b>\$ 198.1</b>	<b>\$ 213.3</b>	<b>\$ (15.2)</b>

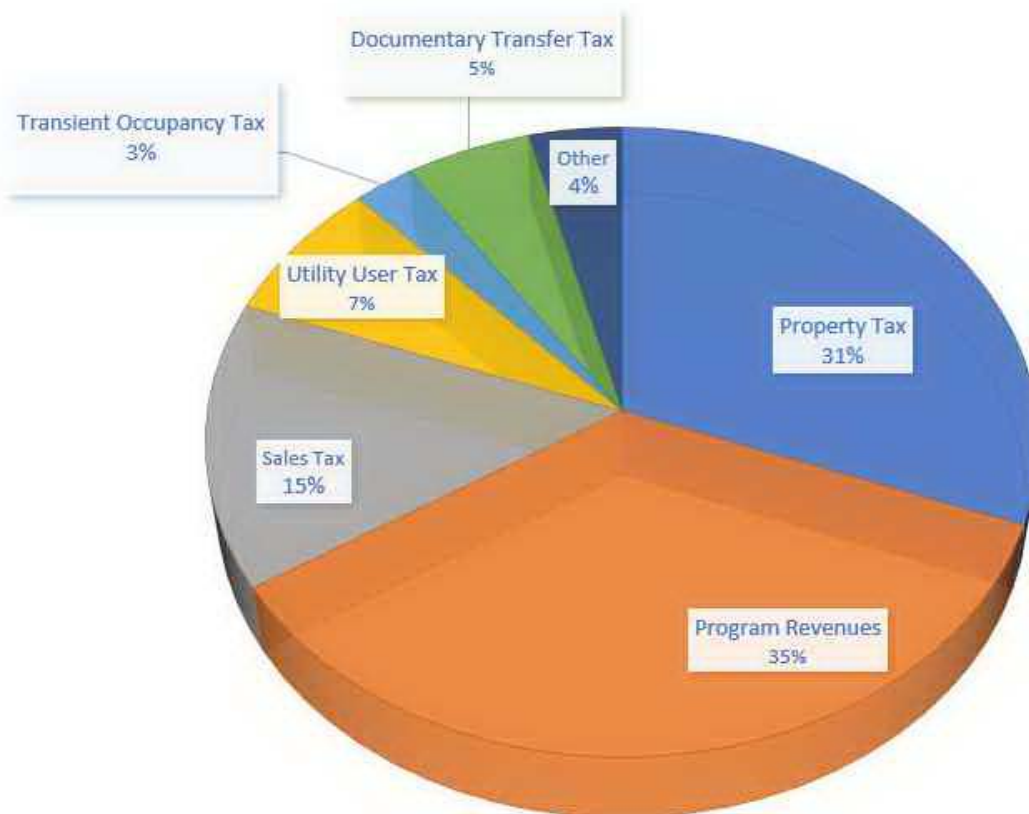
Program Revenues such as charges for services, operating grants and contributions, and capital grants and contributions are generated from or restricted to each activity. Total Program Revenues increased \$1.1 million, or 1.6 percent, from the prior year.

General Revenues decreased \$16.3 million, or 11.3 percent, from the prior year mainly due to decreases in sales tax, utility user tax, transient occupancy tax revenues as a result of the economic impact of the COVID-19 pandemic, and investment earnings due to impact of negative fair market value adjustments.

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

### ***Governmental Activities – Revenues by Source***

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



### ***Governmental Activities – Expenses***

The table below presents a comparison of FY 2021 and FY 2020 expenses by function, along with interest and other expenses and transfers. Total Governmental Activities functional expense was \$234.6 million in FY 2021, a decrease of \$8.3 million.

<b>GOVERNMENTAL ACTIVITIES</b> <b><i>Expenses and Change in Net Position for the Year Ended June 30</i></b> <b>(in millions)</b>			
<b>Activities</b>	<b>2021</b>	<b>2020</b>	<b>Increase/ (Decrease)</b>
City Council	\$ 0.2	\$ 0.2	\$ -
City Manager	2.5	3.6	(1.1)
City Attorney	2.3	2.8	(0.5)
City Clerk	0.7	0.8	(0.1)
City Auditor	0.6	0.6	0.0
Administrative Services	23.0	15.9	7.1
Human Resources	2.5	3.0	(0.5)
Public Works	52.7	45.6	7.1
Planning and Development Services	18.1	21.7	(3.6)
Office of Transportation	3.6	4.7	(1.1)
Police	43.6	50.9	(7.3)
Fire	37.1	41.3	(4.2)
Community Services	30.3	34.2	(3.9)
Library	11.1	13.0	(1.9)
Interest and Other Expense	6.3	4.6	1.7
<b>Total Functional Expense</b>	<b>234.6</b>	<b>242.9</b>	<b>(8.3)</b>
Change in Net Position before Transfers	(36.5)	(29.6)	(6.9)
Transfers	19.1	20.2	(1.1)
Change in Net Position	(17.4)	(9.4)	(8.0)
Net Position, Beginning	440.6	450.0	(9.4)
<b>Net Position, Ending</b>	<b>\$ 423.2</b>	<b>\$ 440.6</b>	<b>\$ (17.4)</b>

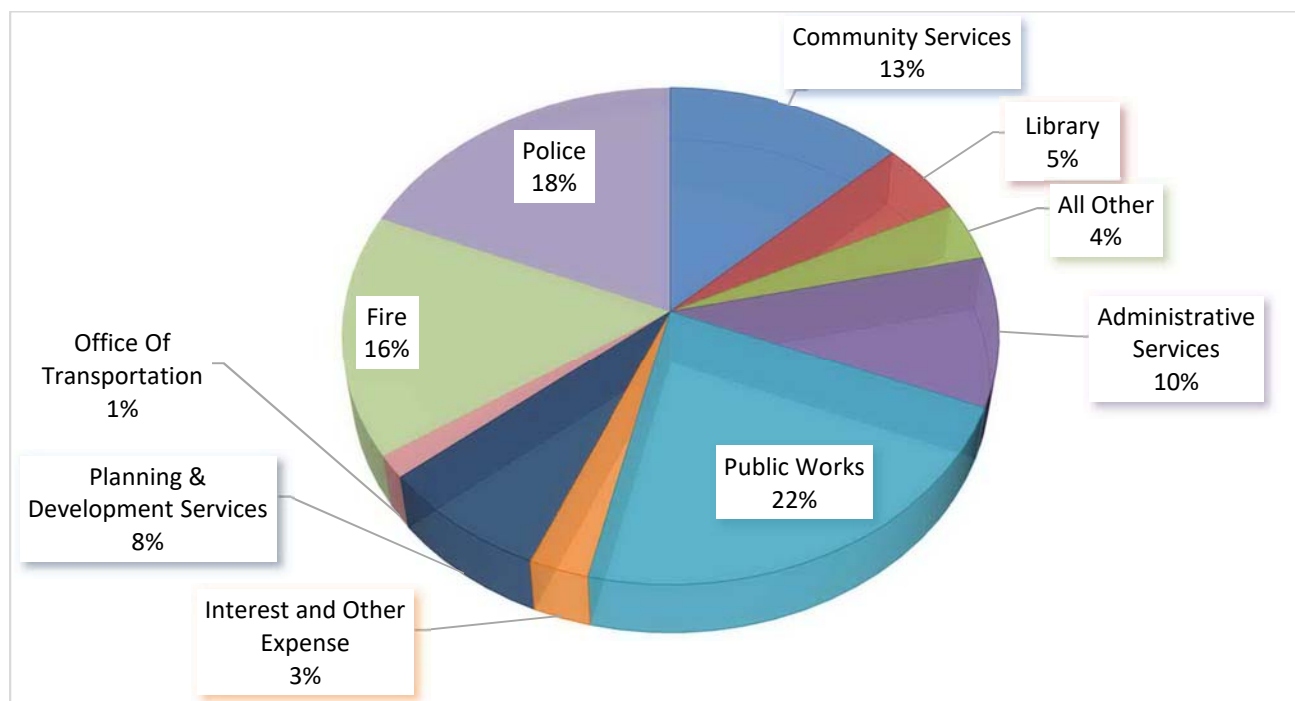
Functional expenses consisted of depreciation, uncapitalized operating expenses from capital project funds, internal service funds allocation, changes in pension and OPEB liabilities due to deferred contributions, and the amortization of pension and OPEB-related outflows and inflows of resources.

Total functional expenses were \$234.6 million in the current fiscal year, a decrease of \$8.3 million from the prior year mainly due to decreases in salaries and benefits and contract services. All department functional expenses decreased except for a) Public Works which increased \$7.1 million due to various repairs and maintenance of capital assets such as streets, sidewalks, facilities, and parks all of which are non-capitalizable; and b) Administrative Services which increased \$7.1 million mainly due to the expenses incurred for claims related to a class action lawsuit of \$12.6 million.

Further variance analysis of functional expenses can be found in the Financial Analysis of Governmental Funds section of the MD&A.

### ***Governmental Activities – Functional Expenses***

The functional expenses chart below includes only current year expenses. It does not include capital outlays, as those are added to the City's capital assets. Functions which comprise less than 2 percent of total expenses are combined into the "All Other" category in the chart below. All Other includes City Council, City Manager, City Attorney, City Clerk, City Auditor, and Human Resources.



### ***Business-Type Activities – Net Position***

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

<b>CONDENSED STATEMENT OF NET POSITION BUSINESS-TYPE ACTIVITIES As of June 30 (in millions)</b>			
	<b>2021</b>	<b>2020</b>	<b>Increase/ (Decrease)</b>
Cash and investments	\$ 285.6	\$ 277.4	\$ 8.2
Other assets	47.7	52.8	(5.1)
Capital assets	708.5	693.2	15.3
<b>Total Assets</b>	<b>1,041.8</b>	<b>1,023.4</b>	<b>18.4</b>
Unamortized loss from refunding	0.1	0.2	(0.1)
Pension and OPEB related	24.1	20.9	3.2
<b>Total Deferred Outflows of Resources</b>	<b>24.2</b>	<b>21.1</b>	<b>3.1</b>
Net pension and OPEB liabilities	159.7	153.7	6.0
Long-term debt	68.9	74.5	(5.6)
Other liabilities	23.8	21.7	2.1
<b>Total Liabilities</b>	<b>252.4</b>	<b>249.9</b>	<b>2.5</b>
Pension and OPEB related	6.4	9.6	(3.2)
<b>Total Deferred Inflows of Resources</b>	<b>6.4</b>	<b>9.6</b>	<b>(3.2)</b>
<b>Net Position</b>			
Net investment in capital assets	642.0	621.3	20.7
Restricted	3.4	4.1	(0.7)
Unrestricted	161.8	159.6	2.2
<b>Total Net Position</b>	<b>\$ 807.2</b>	<b>\$ 785.0</b>	<b>\$ 22.2</b>

The City's Business-type Activities total net position increased \$22.2 million to \$807.2 million as of June 30, 2021 due to the following:

- Assets and Deferred Outflows of Resources
  - Cash and investments increased \$8.2 million mainly due to increases in net position for all enterprise funds except for the Electric Fund.
  - Other assets decreased \$5.1 million mainly due to lower accounts receivable balance in the Electric Fund.

- Capital assets increased \$15.3 million to \$708.5 million primarily due to capital assets addition in the Electric, Wastewater Collection, Wastewater Treatment, Storm Drainage and Airport Funds. These capital assets additions and reduction in related long term debt also contributed to the \$20.7 million increase in net investment in capital assets to \$642.0 million in FY 2021.
- Liabilities and Deferred Inflows of Resources
  - Pension and OPEB related deferred outflows of resources increased \$3.2 million due to increases of pension related deferred outflows of resources of \$3.5 million offset by the decrease of OPEB related deferred outflows of resources of \$0.3 million.
  - Net pension and OPEB liabilities increased \$6.0 million due to a \$6.6 million increase in net pension liabilities offset by a \$0.6 million decrease in net OPEB liabilities.
  - Long term debt decreased \$5.6 million due to scheduled debt retirements.
  - Other liabilities increased \$2.1 million primarily due to higher year-end accruals in the Electric and Airport Funds.
  - Pension and OPEB related deferred inflows of resources decreased \$3.2 million due to a decrease of \$2.3 million related pension inflows of resources and decrease of OPEB related deferred inflows of resources of \$0.9 million.
- Net Position
  - Unrestricted net position of \$161.8 million, an increase of \$2.2 million from the prior year, represents assets available to finance day-to-day operations and other expenses approved by the City Council. This amount includes rate stabilization reserves (RSR) of \$51.3 million and operations reserves of \$69.2 million, along with the electric special projects (Calaveras) reserve of \$46.7 million, the hydro stabilization reserve of \$15.4 million and the CIP reserve of \$18.6 million. The positive balances in these reserves are offset by \$105.7 million net impact of net pension liabilities and its related deferred outflows of resources and \$36.3 million net impact of net OPEB liabilities and its related deferred outflows of resources and deferred inflows of resources.

## Business-Type Activities – Revenues

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

<b>BUSINESS-TYPE ACTIVITIES</b>			
<b>Revenues for the Year Ended June 30</b>			
<b>(in millions)</b>			
<b>Revenues by Source</b>	<b>2021</b>	<b>2020</b>	<b>Increase/ (Decrease)</b>
<b>Program Revenues:</b>			
Charges for services	\$ 346.5	\$ 353.0	\$ (6.5)
Operating grants and contributions	0.5	0.5	-
Capital grants and contributions	6.4	6.4	-
<b>Total Program Revenues</b>	<b>353.4</b>	<b>359.9</b>	<b>(6.5)</b>
<b>General Revenues:</b>			
Investment earnings	2.2	11.5	(9.3)
<b>Total General Revenues</b>	<b>2.2</b>	<b>11.5</b>	<b>(9.3)</b>
<b>Total Revenues</b>	<b>\$ 355.6</b>	<b>\$ 371.4</b>	<b>\$ (15.8)</b>

Business-type Activities revenues totaled \$355.6 million, a decrease of \$15.8 million from the prior year. Program revenues decreased \$6.5 million year over year. Charges for services decreased \$6.5 million from the prior year due to the following:

- Electric fund revenue decreased due to lower demand in the commercial and industrial sectors as a result of continued limited businesses operations and closures.
- Refuse fund revenue decreased due to a reduction of commercial and industrial services due to limited business operations and shelter in place restrictions.
- The decreases mentioned above were partially offset by the increases in Gas Fund revenues due to a 2 percent rate increase and higher residential consumption and in Wastewater Treatment fund as a result of higher billing for capital costs. Storm Drainage and Fiber Optic rates also increased in FY 2021.

Investment earnings decreased \$9.3 million from the prior year mainly due to the impact of negative fair market value adjustments.

## Business-Type Activities – Expenses

The table below presents a comparison of the FY 2021 and FY 2020 expenses for the City's Business-type Activities.

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

<u>Business-type Activities</u>	<u>2021</u>	<u>2020</u>	<u>Increase/ (Decrease)</u>
Water	\$ 43.6	\$ 43.0	\$ 0.6
Electric	156.1	142.4	13.7
Fiber Optics	2.5	2.8	(0.3)
Gas	28.6	27.2	1.4
Wastewater Collection	19.6	18.9	0.7
Wastewater Treatment	28.4	28.8	(0.4)
Refuse	29.1	36.9	(7.8)
Storm Drainage	4.9	5.5	(0.6)
Airport	1.5	2.1	(0.6)
<b>Total Functional Expense</b>	<b>314.3</b>	<b>307.6</b>	<b>6.7</b>
 Increase in Net Position before Transfers	 41.3	 63.7	 (22.4)
Transfers	(19.1)	(20.2)	1.1
 Change in Net Position	 22.2	 43.5	 (21.3)
 Net Position, Beginning	 785.0	 741.5	 43.5
<b>Net Position, Ending</b>	<b>\$ 807.2</b>	<b>\$ 785.0</b>	<b>\$ 22.2</b>

Business-type Activities expenses increased \$6.7 million for a total of \$314.3 million mainly due to the following:

- Electric Fund expenses increased \$13.7 million due to higher energy purchase costs and increases in operations and maintenance. The availability of hydroelectric energy resources is lower than average and requires electricity purchases at market rates which were significantly higher during the spring of 2021.
- Gas Fund expenses increased \$1.4 million due to higher commodity purchases as a result of higher natural gas prices.
- Refuse Fund expenses decreased \$7.8 million due to lower payments to GreenWaste of Palo Alto for reimbursement of new waste collection vehicles, decreases in facility rent and a downward adjustment to landfill post closure maintenance as a result of a maintenance cost update that was approved in FY 2021.



## ***FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS***

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

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

As of June 30, 2021, the City's Governmental Funds reported combined fund balances of \$365.6 million, an increase of \$98.9 million from the prior year mainly due to issuance of COPs for the construction of a public safety building. Approximately 13.4 percent, or \$49.1 million, constitutes unassigned fund balance, which is available for spending at the City's discretion and other purposes. The remainder of the fund balance is either non-spendable, restricted, committed, or assigned to indicate that it is: 1) not in spendable form (\$11.9 million); 2) restricted for particular purposes (\$136.8 million); 3) committed for particular purposes (\$90.0 million); or 4) assigned for particular purposes (\$77.9 million).

Governmental Fund revenues decreased \$13.8 million, or 6.6 percent, from the prior year to \$194.9 million. General Fund revenues decreased \$13.6 million and Capital Projects Fund revenue increased \$1.8 million. Non-major Governmental Funds revenue decreased \$2.0 million primarily due to suspension of most parking enforcement which decreased the demand for parking permits. The violations were partially offset by an increase in housing in-lieu fees and federal revenue.

Governmental Fund expenditures were \$222.1 million, a decrease of \$38.7 million from the prior year. General Fund expenditures decreased \$21.8 million, Capital Projects Fund expenditures decreased by \$18.2 million, and Non-major Governmental Funds expenditures increased by \$1.3 million. Details of significant changes are discussed in the following sections.

Governmental Fund other financing resources increased \$112.3 million, from the prior year to \$126.1 million mainly due to the issuance of COPs for the construction of a public safety building.

### ***General Fund***

#### ***Balance Sheet***

The General Fund is the primary operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$75.6 million, compared to \$61.8 million in the prior year. The fund balance is classified as follows: \$9.4 million non-spendable, \$4.6 million committed, \$12.5 million assigned, and \$49.1 million unassigned. The unassigned amount is designated by the City Council for Budget Stabilization Reserve.

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

The City's General Fund revenues totaled \$166.8 million in FY 2021. This represents a decrease of \$13.6 million, or 7.5 percent, compared to the prior year. The year over year change in significant revenue sources is noted in the following table.

GENERAL FUND			
<i>Revenues for the Year Ended June 30</i>			
(in millions)			
<u>Revenues by Source</u>	<u>2021</u>	<u>2020</u>	<u>Increase/ (Decrease)</u>
Property tax	\$ 56.6	\$ 51.1	\$ 5.5
Sales tax	29.1	30.6	(1.5)
Utility user tax	14.6	16.1	(1.5)
Transient occupancy tax	5.2	18.6	(13.4)
Documentary transfer tax	10.6	6.9	3.7
Charges for services	25.1	24.1	1.0
Permits and license	7.3	7.5	(0.2)
Rental income	13.3	16.0	(2.7)
Other	<u>5.0</u>	<u>9.5</u>	<u>(4.5)</u>
Total Revenues	<u>\$ 166.8</u>	<u>\$ 180.4</u>	<u>\$ (13.6)</u>

Property tax revenue increased \$5.5 million, or 10.8 percent due to pre-pandemic assessed value growth and an increase of \$1.7 million in the Excess Educational Revenue Augmentation Fund (ERAF) distribution. The FY 2021 secured and unsecured property tax assessed values growth rates are 7.6 percent and 12.7 percent, respectively, a weighted average of 7.8 percent. These higher assessed values reflect continued strength in commercial and residential real estate markets. Historically, during economic downturns such as a recession and/or a pandemic, impacts to property tax are delayed a year and then the growth rate typically plateaus.

Over a seven-year period, ERAF distribution has grown from \$0.4 million in FY 2014 to \$5.6 million in FY 2021. Excess ERAF is the fund used to collect and disburse property taxes that are shifted to/from cities, the County, and special districts prior to their reallocation to K-14 school agencies. When the state shifts more local property tax than required to support schools these funds are returned and known as excess ERAF. Due to the uncertainty of whether local agencies will continue to receive excess ERAF funds, it is not considered a permanent local revenue source.

Sales tax receipts were \$1.5 million or 4.9 percent, lower than the prior year. The decrease is lower than expected even though there is a significant decline of high-end goods and dining options at regional destinations, such as the Stanford Shopping Center, which was offset by the strong performance in the business to business segment and online sales. As the nation transitions from a shopping center country to online sales, a surge in online retail sales will partially displace tax revenue from traditional industry segments to state and county pools. Online sales data that cannot be tracked to a specific county jurisdiction are allocated to the Santa Clara County sales tax pool and then distributed to local jurisdictions based on local tax percentages. City's average proportion of the county pool sales tax allocation is approximately 5.6 percent, a 1.5 percent decrease compared to the fourth calendar quarter of 2019 (pre-pandemic). The sales tax growth in the second half of FY 2021 is due to high vaccination rates in the Bay Area resulting in increased employment and economic activity.

Utility user tax (UUT) revenues are \$1.5 million, or 9.3 percent, lower compared to prior year due to lower business consumption of electric and telephone services. The telephone UUT receipts declined by \$1.2 million or 19.3 percent due to business closures and shelter in place restrictions which reduced the workforce present in the City.

Transient occupancy tax (TOT) continues to be the revenue source most significantly impacted by the pandemic and fell to \$5.2 million, a \$13.4 million, or 72.0 percent decrease when compared to the prior year. Six hotels, representing 16.3 percent of available rooms remained closed while two other smaller hotels reopened during the fiscal year. However, two Marriott hotels (with around 293 rooms) are newly opened in the middle and end of the fiscal year. The opened hotels average daily room and occupancy rates significantly declined in the first three quarters and partially recovered in the fourth quarter. In FY 2021, the average occupancy rate was 40.6 percent, a 33.4 percent decrease and the average room rate was \$116.90, a 55.9 percent decrease over the prior year.

Documentary transfer tax increased \$3.7 million, or 53.6 percent when compared to prior year due to six large commercial property transactions that occurred in FY2021. This revenue source is volatile since it is highly dependent on sales volume and the mix of commercial and residential sales.

Charges for services increased \$1.0 million, or 4.1 percent, when compared to prior year due to an increase of golf course revenues by \$2.3 million which due to higher demand to play golf after re-opening during the COVID-19 pandemic. This increase is offset by reduced programs and classes and fewer reviews and inspections due to limited operations caused by COVID-19 restrictions.

Rental income decreased \$2.7 million, or 16.9 percent, when compared to prior year due to lower facility rentals and number of tenants due to limited economic activities and some businesses closures. The City has continued to follow the Santa Clara County Moratorium Order to give protection for small businesses and approved a rent forgiveness program.

Other revenues decreased \$4.5 million, or 47.4 percent, when compared to prior year due to a decrease of investment earnings which resulted from negative fair market value adjustments

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

General Fund expenditures totaled \$160.3 million for FY 2021 compared to \$182.1 in the prior year. This amount excludes encumbrances and reappropriations. The year over year change for major functions is noted in the following table.

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

<b><u>Expenditures by Function</u></b>	<b><u>2021</u></b>	<b><u>2020</u></b>	<b><u>Increase/ (Decrease)</u></b>
Administrative Services	\$ 5.2	\$ 6.0	\$ (0.8)
Public Works	13.3	13.6	(0.3)
Planning and Development Services	15.8	19.3	(3.5)
Police	41.3	45.7	(4.4)
Fire	34.9	36.4	(1.5)
Community Services	26.3	29.6	(3.3)
Library	8.5	10.0	(1.5)
Non-Departmental	4.6	9.2	(4.6)
All other	10.4	12.3	(1.9)
<b>Total Expenditures</b>	<b><u>\$ 160.3</u></b>	<b><u>\$ 182.1</u></b>	<b><u>\$ (21.8)</u></b>

General Fund expenditures decreased by \$21.8 million, or 12.0 percent compared to prior year primarily due to the decrease in salaries and benefits and reduced contract services. In response to financial uncertainties caused by the COVID-19 pandemic, the City adopted various strategies to lower expenses such as implementing furloughs to the Management and Professional Group, leaving some vacant positions unfilled, eliminating a few positions, and deferring wage increases to most of the labor unions. The City also reduced service hours and various operating expenditures such as travel and training, program and project consultants, and other contractual services.

Planning and Development expenses decreased \$3.5 million primarily due to reduced contract services due to reorganized building inspection and plan review.

Police expenses decreased \$4.4 million mainly due to decreases in salaries and benefits, including overtime, as a result of eliminated positions including specialized police teams, detectives, dispatchers, records staff, animal control officers, parking enforcement officers and administration.

Fire expenses decreased \$1.5 million mainly due to decreases in indirect charges such as vehicle replacement allocation and IT support.

Community Services expenses decreased \$3.3 million primarily due to decreases in salaries and benefits and contract services. In response to continued governmental restrictions, Community Services Facilities reduced operating hours in community centers, museums, theater and open space preserves. Special events, art exhibits and teen programs were also reduced or eliminated.

Library expenses decreased \$1.5 million which was attributed to a decrease in salaries and benefits and reduced contract services as a result of reduced library hours at all branches.

Non-Departmental expenditures decreased \$4.6 million due to reduced lease payments for the Cubberley facility and a one-time purchase of the current City Manager's house in FY 2020.

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

Revenues, excluding Charges to Other Funds, were originally budgeted at \$163.1 million. Budget estimates were revised downward by \$3.9 million. The revenue categories that were adjusted are shown in the table below.

<b>GENERAL FUND</b>				
<b><i>Budgeted Revenues for the Year Ended June 30</i></b>				
<b>(in millions)</b>				
<b><u>Budgeted Revenues</u></b>	<b><u>Adopted Budget</u></b>	<b><u>Final Budget</u></b>	<b><u>Increase/ (Decrease)</u></b>	
Property tax	\$ 52.0	\$ 53.2	\$ 1.2	
Sales tax	20.5	25.0	4.5	
Utility user tax	15.1	14.1	(1.0)	
Transient occupancy tax	14.9	5.1	(9.8)	
Documentary transfer tax	4.7	6.9	2.2	
All other	55.9	54.9	(1.0)	
	163.1	159.2	(3.9)	
Charges to other funds	12.0	12.0	-	
Prior year encumbrances and appropriations	-	7.6	7.6	
<b>Total Budgeted Revenues</b>	<b><u>\$ 175.1</u></b>	<b><u>\$ 178.8</u></b>	<b><u>\$ 3.7</u></b>	

Adjustments to the original budget were based on the following:

- Property tax was increased by \$1.2 million due to property assessed value growth and change in ownership.
- Sales tax was increased by \$4.5 million due to the higher than expected receipts.
- Utility user tax decreased by \$1.0 million due to the lower consumption of both utility commodity and telephone.
- Transient occupancy tax decreased by \$9.8 million due to continued declines in hotel activities and rates.
- Documentary transfer tax increased by \$2.2 million based on year-to-date receipts tracking higher than anticipated.

Expenditures, excluding Operating Transfers, were originally budgeted at \$179.1 million and were revised upward by \$8.4 million, for a final budgeted amount of \$187.5 million.

GENERAL FUND				
<i>Budgeted Expenditures for the Year Ended June 30</i>				
(in millions)				
<u>Budgeted Expenditures</u>	<u>Adopted Budget</u>	<u>Final Budget</u>	<u>Increase/ (Decrease)</u>	<u>Actuals, plus Encumbrances</u>
Community Services	\$ 28.4	\$ 28.8	\$ 0.4	\$ 27.8
Fire	33.6	35.4	1.8	35.4
Police	41.7	42.4	0.7	42.4
Library	8.4	8.7	0.3	8.6
Planning and Development Services	17.4	19.6	2.2	18.8
Public Works	18.4	19.1	0.7	18.6
Non-Departmental	8.2	9.3	1.1	9.3
All Other	23.0	24.2	1.2	22.9
<b>Total Budgeted Expenditures</b>	<b><u>\$ 179.1</u></b>	<b><u>\$ 187.5</u></b>	<b><u>\$ 8.4</u></b>	<b>183.8</b>
Less: Charges to Other Funds and Departments				(11.7)
Less: Encumbrances and Reappropriations				(11.8)
<b>Net General Fund Expenditures</b>				<b><u>\$ 160.3</u></b>

Adjustments of \$8.4 million to the original budget were primarily due to the \$7.6 million carry-forward of encumbrances from prior year and reappropriations.

Final actual expenditures totaled \$183.8 million, \$3.7 million lower than the final budget totaling \$187.5 million. As mentioned previously, the Final budget includes encumbrances and reappropriations carried forward from prior year, totaling \$7.6 million. In closing FY 2021, \$11.8 million was encumbered and reappropriated in FY 2022. The actual expenditures were lower as compared with the budget primarily due to reduced contract services.

Transfers out were originally budgeted at \$17.8 million, with the final budget number at \$13.6 million, a decrease of \$4.2 million. The decrease was due to a reduction of the transfers to Capital Project Fund because of decreases in TOT revenues.

### ***Capital Projects Fund***

At the end of the current fiscal year, the fund balance of the Capital Project Fund was \$165.7 million, compared to \$83.6 million in the prior year. The fund balance is restricted for the Public Safety Building (\$90.9 million) and library project (\$0.6 million), committed for Roth building rehabilitation (\$5.2 million) and Cubberley improvements (\$4.7 million) and the remaining balance of \$64.3 million is available for all other capital projects.

Capital Projects Fund revenues were \$11.4 million in FY 2021, an increase of \$1.8 million from the prior year due to federal grant reimbursements while other financing sources were \$118.8 million, an increase of \$87.9 million mainly due to issuance of COPs amounting to \$101.5 million plus \$6.5 premium to finance the construction of a public safety building partially offset by the decrease of operating transfers in from General Fund due to significant decreases in revenues, including TOT.

Capital Project Fund expenditures were \$48.1 million in FY 2021, a decrease of \$18.2 million. To manage resources with funding needs and balance for the City's severe decrease in TOT revenues resulting from the pandemic, the most critical capital investments were prioritized and project budget for other projects were deferred into later years or beyond the five-year capital plan.

### ***Non-Major Governmental Funds***

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

## FINANCIAL ANALYSIS OF ENTERPRISE FUNDS

At June 30, 2021, the City's Enterprise Funds reported total net position of \$807.2 million, an increase of \$22.2 million or 2.8 percent from the prior year. All Enterprise funds contributed to this increase except Electric Fund.

The changes in net position in the Enterprise Funds are summarized in the following table.

<b>ENTERPRISE FUNDS</b> <b>Change in Net Position for the Year Ended June 30</b> <b>(in millions)</b>			
<b>Fund Name</b>	<b>2021</b>	<b>2020</b>	<b>Increase/ (Decrease)</b>
Water	\$ 6.6	\$ 8.0	\$ (1.4)
Electric	(4.8)	18.6	(23.4)
Fiber Optics	1.5	2.9	(1.4)
Gas	3.5	3.0	0.5
Wastewater Collection	0.7	2.1	(1.4)
Wastewater Treatment	3.1	0.3	2.8
Refuse	1.9	(3.1)	5.0
Storm Drainage	3.0	2.2	0.8
Airport	6.7	5.6	1.1
<b>Total Change in Net Position</b>	<b>\$ 22.2</b>	<b>\$ 39.6</b>	<b>\$ (17.4)</b>

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

- The Water and Fiber Optic Funds operating income has no significant change, however, the change in net position for both funds decreased \$1.4 million from prior year due to decline in other revenues specifically interest earnings due to the impact of negative fair market value adjustments.
- The change in net position for Electric Fund decreased \$23.4 million from prior year due to decrease in commercial retail revenues as a result of lower consumption, a decrease in investment earnings due to the impact of negative fair market value adjustments, an increase in purchases of electricity due to low hydroelectric supply, and an increase in operations and maintenance expenses.
- The change in net position for Wastewater Collection Fund decreased \$1.4 million due to lower non-residential sewer charges, lower non-operating revenue including interest earnings and an increase in operating expenses
- The change in net position for Wastewater Treatment Fund increased \$2.8 million due to higher billing to partners for capital costs and decreases in operations and maintenance expenses.
- The change in net position of Refuse Fund increased \$5.0 million due to a decrease in operating expenses as a result of lower payment to GreenWaste of Palo Alto for reimbursements of new waste collections and vehicles, a decrease in facility rent and downward adjustment to landfill post closure maintenance. The decrease of operating expenses was partially offset by lower revenues including investment earnings.



## CAPITAL ASSETS

GASB Statement No. 34 requires that the City record all its capital assets, including infrastructure and intangible assets. Infrastructure includes roads, bridges, signals and similar assets used by the entire population. The table below shows capital assets and the amount of accumulated depreciation for these assets for Governmental and Business-type Activities. Further detail can be found in Note 6 to the financial statements.

CAPITAL ASSETS AT JUNE 30 (in millions)			
	2021	2020	Increase/ (Decrease)
<b>Governmental activities</b>			
<b>Capital Assets</b>			
Land and improvements	\$ 82.1	\$ 82.2	(0.1)
Street trees	14.8	14.8	-
Construction in progress	137.8	139.4	(1.6)
Building and improvements	272.1	251.1	21.0
Intangible assets	3.8	3.8	-
Equipment	17.2	15.7	1.5
Roadway network	335.3	335.2	0.1
Recreation and open space network	35.2	35.2	-
Less accumulated depreciation	(319.3)	(302.5)	(16.8)
<b>Internal Service funds</b>			
Construction in progress	5.6	2.7	2.9
Equipment	63.1	63.5	(0.4)
Less accumulated depreciation	(45.7)	(44.8)	(0.9)
<b>Total Governmental Activities</b>	<b>\$ 602.0</b>	<b>\$ 596.3</b>	<b>\$ 5.7</b>
<b>Business-Type Activities</b>			
Land	\$ 5.0	\$ 5.0	\$ -
Construction in progress	129.0	121.1	7.9
Buildings and improvements	74.5	74.5	-
Infrastructure	0.6	0.6	-
Transmission, distribution and treatment systems	914.8	884.8	30.0
Less accumulated depreciation	(415.4)	(392.8)	(22.6)
<b>Total Business-type Activities</b>	<b>\$ 708.5</b>	<b>\$ 693.2</b>	<b>\$ 15.3</b>

Governmental Activities' capital assets net of depreciation increased by \$5.7 million from the prior year. The increase was primarily due to activity in various projects such as the Highway 101 Pedestrian / Bicycle overpass, the Public Safety Building and California Avenue Parking Garage offset with retirements.

The City Council approved a \$125.8 million Infrastructure Plan (IP) in June 2014, which includes projects such as a new Public Safety Building, replacement of two Fire Stations, a Bike and Pedestrian plan and two parking garages. Through the development of the 2021-2025 Capital Improvement Plan (CIP), the IP projects were updated resulting in a revised Infrastructure Plan of \$260.5 million. These projects will be funded partially by debt to be repaid with voter-approved increases of 3.5 percent in the TOT rate and from other sources such as impact fees and Stanford University Medical Center development agreement monies. Staff is continually assessing the COVID-19 impact to maintain funding for these projects.

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

- Public Safety Building - \$97.1 million
- Charleston Arastradero Corridor – \$7.4 million
- Municipal Service Center Improvements – \$6.0 million
- Churchill Ave/Alma – \$4.2 million
- Railroad Grade Separation – \$4.0 million
- Highway 101 Pedestrian/Bicycle Overpass – \$3.7 million
- Vehicle Replacements – \$3.3 million

Business-type Activities' capital assets net of depreciation increased by \$15.3 million from the prior year. The increase is primarily due to, Electric, Wastewater Collection, Wastewater Treatment, Storm Drain and Airport Funds.

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

- Seismic Water System Upgrade – \$5.3 million
- Gas Main Replacement Project 23 – \$6.9 million
- Primary Sedimentation Tank Rehabilitation – \$11.8 million
- Airport Apron Reconstruction Phase 1 – \$23.3 million

The City depreciates its capital assets over their estimated useful lives, as required by GASB Statement No. 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on capital assets and depreciable lives are in Note 6.

## DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 7 to the financial statements. The City's debt as of June 30, 2021 is shown in the following table.

LONG-TERM DEBT AT JUNE 30			
(in millions)			
	2021	2020	Increase/ (Decrease)
<b>Governmental Activities</b>			
<b>General Long-Term Obligations</b>			
General Obligation Bonds			
2010	\$ 42.0	\$ 43.3	\$ (1.3)
Add: unamortized premium	2.3	2.5	(0.2)
2013A	15.0	15.5	(0.5)
Add: unamortized premium	0.7	0.8	(0.1)
Certificates of Participation			
2018 Capital Improvement Projects	8.6	8.7	(0.1)
2019 California Ave Parking Garage			
Series A & B	36.4	37.0	(0.6)
Add: unamortized premium	4.5	4.7	(0.2)
2021 Public Safety Building	101.5	-	101.5
Add: unamortized premium	6.5	-	6.5
<b>Total Governmental Activities</b>	<b>\$ 217.5</b>	<b>\$ 112.5</b>	<b>\$ 105.0</b>
<b>Business-type Activities</b>			
<b>Enterprise Long-Term Obligations</b>			
Utility Revenue Bonds			
1999 Refunding	\$ 5.1	\$ 6.7	\$ (1.6)
2009 Series A	24.3	25.5	(1.2)
2011 Refunding	6.7	7.9	(1.2)
Add: unamortized premium	0.4	0.5	(0.1)
Energy Tax Credit Bonds			
2007 Series A	0.1	0.2	(0.1)
Less: unamortized discount	-	(0.1)	0.1
State Water Resources Loan			
2007	3.6	4.0	(0.4)
2009	4.8	5.3	(0.5)
2017	23.9	24.5	(0.6)
<b>Total Business-type Activities</b>	<b>\$ 68.9</b>	<b>\$ 74.5</b>	<b>\$ (5.6)</b>

City-wide long-term debt increased by a total of \$99.4 million mainly due the issuance of COPs for the construction of the public safety building in the amount of \$101.5 million plus \$6.5 million premium which was offset by the scheduled debt retirement.

## ***ECONOMIC OUTLOOK***

The COVID-19 pandemic came with the strict orders for the safety of the public which resulted in a drastic drop in revenues. In FY2021, the City took swift, decisive, and difficult action to balance the budget by prioritizing essential services and reducing or eliminating discretionary services, while continue to address its long-term liabilities such as pension and OPEB obligations. The fiscal challenges remain constant as the COVID-19 pandemic continues. The City will maintain services at the same levels in previous year for the upcoming fiscal year, but these service levels are not sustainable for the fiscal health of the City in the long term. The FY 2022 adopted Operating and Capital reflects current fiscal reality, however, as hopeful signs for recovery continue, the City will respond quickly and adapt should more moderate growth occur than forecasted.

More information about the economy of the City is discussed in the accompanying Transmittal Letter.

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

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

**CITY OF PALO ALTO**  
**Statement of Net Position**  
**June 30, 2021**  
**(Amounts in thousands)**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash and investments available for operations (Note 3)	\$ 310,091	\$ 282,271	\$ 592,362
Receivables, net:			
Accounts and intergovernmental	16,099	43,321	59,420
Interest receivable	1,544	1,405	2,949
Notes and loans receivable (Note 5)	53,677	-	53,677
Internal balances (Note 4)	(298)	298	-
Deposits	15	-	15
Due from other government agencies	-	2,400	2,400
Inventory of materials and supplies, prepaids and deposits	5,615	244	5,859
Restricted cash and investments with fiscal agents and trustees (Note 3)	133,264	3,340	136,604
Capital assets (Note 6):			
Nondepreciable	243,923	133,909	377,832
Depreciable, net of accumulated depreciation	358,056	574,600	932,656
Total assets	<u>1,121,986</u>	<u>1,041,788</u>	<u>2,163,774</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Unamortized loss from refunding	-	149	149
Pension related (Note 11)	45,531	18,119	63,650
OPEB related (Note 12)	15,271	6,012	21,283
Total deferred outflows of resources	<u>60,802</u>	<u>24,280</u>	<u>85,082</u>
<b>LIABILITIES:</b>			
Accounts payable and accruals	14,812	16,432	31,244
Accrued salaries and benefits	2,679	1,224	3,903
Unearned revenue	9,400	-	9,400
Accrued compensated absences (Note 1):			
Due in one year	6,327	-	6,327
Due in more than one year	9,320	-	9,320
Claims payable (Notes 14 and 16):			
Due in one year	6,811	-	6,811
Due in more than one year	38,339	-	38,339
Landfill post-closure liability (Note 9):			
Due in more than one year	-	6,179	6,179
Net pension liabilities (Note 11):			
Due in more than one year	349,296	123,787	473,083
Net OPEB liabilities (Note 12):			
Due in more than one year	88,883	35,915	124,798
Long-term debt (Note 7):			
Due in one year	3,264	5,757	9,021
Due in more than one year	214,270	63,153	277,423
Total liabilities	<u>743,401</u>	<u>252,447</u>	<u>995,848</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
OPEB related (Note 12)	16,250	6,402	22,652
<b>NET POSITION (Note 10):</b>			
Net Investment in capital assets	480,620	642,018	1,122,638
Restricted for:			
Transportation mitigation	12,512	-	12,512
Public benefit	18,282	-	18,282
Supplemental pension	37,089	-	37,089
Others	6,077	-	6,077
Debt service	3,749	3,340	7,089
Nonexpendable - Eyerly Family	2,556	-	2,556
Total restricted net position	<u>80,265</u>	<u>3,340</u>	<u>83,605</u>
Unrestricted	<u>(137,748)</u>	<u>161,861</u>	<u>24,113</u>
Total net position	<u>\$ 423,137</u>	<u>\$ 807,219</u>	<u>\$ 1,230,356</u>

See accompanying notes to the basic financial statements.

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**CITY OF PALO ALTO**  
**Statement of Activities**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

					Net (Expense) Revenue and Changes in Net Position		
		Program Revenues					
			Operating	Capital			
Functions/Programs	Expenses	Charges for	Grants and	Grants and	Governmental	Business-Type	Total
		Services	Contributions	Contributions	Activities	Activities	
Governmental Activities:							
City Council	\$ 178	\$ -	\$ -	\$ -	\$ (178)	\$ -	\$ (178)
City Manager	2,466	-	-	-	(2,466)	-	(2,466)
City Attorney	2,292	-	-	-	(2,292)	-	(2,292)
City Clerk	702	-	-	-	(702)	-	(702)
City Auditor	641	-	-	-	(641)	-	(641)
Administrative Services	22,985	1,150	457	-	(21,378)	-	(21,378)
Human Resources	2,518	-	-	-	(2,518)	-	(2,518)
Public Works	52,727	937	-	9,748	(42,042)	-	(42,042)
Planning and Development Services	18,141	21,228	1,191	-	4,278	-	4,278
Office of Transportation	3,636	80	-	118	(3,438)	-	(3,438)
Police	43,627	2,008	414	-	(41,205)	-	(41,205)
Fire	37,131	9,127	888	51	(27,065)	-	(27,065)
Community Services	30,289	20,893	49	1,409	(7,938)	-	(7,938)
Library	11,145	47	34	-	(11,064)	-	(11,064)
Interest on long-term debt	6,317	-	-	-	(6,317)	-	(6,317)
Total Governmental Activities	234,795	55,470	3,033	11,326	(164,966)	-	(164,966)
Business-Type Activities:							
Water	43,556	48,812	462	533	-	6,251	6,251
Electric	156,105	162,240	-	-	-	6,135	6,135
Fiber Optics	2,529	3,936	-	-	-	1,407	1,407
Gas	28,556	39,520	-	-	-	10,964	10,964
Wastewater Collection	19,577	20,484	-	239	-	1,146	1,146
Wastewater Treatment	28,403	30,522	-	-	-	2,119	2,119
Refuse	29,138	30,636	-	-	-	1,498	1,498
Storm Drainage	4,897	7,785	-	-	-	2,888	2,888
Airport	1,499	2,585	-	5,619	-	6,705	6,705
Total Business-Type Activities	314,260	346,520	462	6,391	-	39,113	39,113
Total	\$ 549,055	\$ 401,990	\$ 3,495	\$ 17,717	(164,966)	39,113	(125,853)
General Revenues:							
Taxes:							
Property tax					60,901	-	60,901
Sales tax					29,127	-	29,127
Utility user tax					14,642	-	14,642
Transient occupancy tax					5,179	-	5,179
Documentary transfer tax					10,627	-	10,627
Other taxes					2,844	-	2,844
Investment earnings					4,939	2,187	7,126
Miscellaneous					183	-	183
Transfers (Note 4)					19,087	(19,087)	-
Total general revenues and transfers					147,529	(16,900)	130,629
Change in net position					(17,437)	22,213	4,776
Net position, beginning of year					440,574	785,006	1,225,580
Net position, end of year					\$ 423,137	\$ 807,219	\$ 1,230,356

See accompanying notes to the basic financial statements.

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**CITY OF PALO ALTO**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2021**  
**(Amounts in thousands)**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Cash and investments available for operations (Note 3)	\$ 67,397	\$ 79,130	\$ 66,758	\$ 213,285
Receivables, net:				
Accounts and intergovernmental	14,053	1,429	519	16,001
Interest receivable	645	26	389	1,060
Notes and loans receivable (Note 5)	826	-	52,851	53,677
Deposits	15	-	-	15
Prepaid items	291	-	-	291
Due from other fund (Note 4)	943	-	-	943
Advances to other funds (Note 4)	3,036	-	-	3,036
Inventory of materials and supplies	5,208	-	-	5,208
Restricted cash and investments with fiscal agents (Note 3)	-	91,520	4,655	96,175
Total assets	<u>\$ 92,414</u>	<u>\$ 172,105</u>	<u>\$ 125,172</u>	<u>\$ 389,691</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:</b>				
<b>Liabilities:</b>				
Accounts payable and accruals	\$ 5,115	\$ 5,350	\$ 495	\$ 10,960
Accrued salaries and benefits	2,254	141	34	2,429
Unearned revenue	9,400	-	-	9,400
Due to other funds (Note 4)	-	-	341	341
Total liabilities	<u>16,769</u>	<u>5,491</u>	<u>870</u>	<u>23,130</u>
<b>Deferred inflows of resources</b>				
Deferred inflows of resources - Unavailable revenue	9	910	-	919
Total liabilities and deferred inflows of resources	<u>16,778</u>	<u>6,401</u>	<u>870</u>	<u>24,049</u>
<b>Fund balances (Note 10):</b>				
<b>Nonspendable:</b>				
Deposits	15	-	-	15
Prepaid items	291	-	-	291
Inventories	5,208	-	-	5,208
Advances to other funds	3,036	-	-	3,036
Notes and loans receivable	826	-	-	826
Eyerly family	-	-	2,556	2,556
<b>Restricted for:</b>				
Transportation mitigation	-	-	12,512	12,512
Federal revenue	-	-	5,293	5,293
Street improvement	-	-	28	28
Local law enforcement	-	-	756	756
Public safety building	-	90,922	-	90,922
Library bond project	-	598	-	598
Public benefit	-	-	18,282	18,282
Debt service	-	-	8,404	8,404
<b>Committed for:</b>				
Development services	3,950	-	-	3,950
Roth building rehabilitation	-	5,179	-	5,179
Cubberley improvements	-	4,726	-	4,726
Developer impact fees	-	-	13,300	13,300
Housing in-lieu	-	-	58,883	58,883
Special districts	-	-	3,186	3,186
Edgewood Plaza	701	-	-	701
Downtown business	-	-	50	50
<b>Assigned for:</b>				
Unrealized gains on investments	1,891	-	1,052	2,943
Capital projects	-	64,279	-	64,279
Other general government purposes	5,912	-	-	5,912
Electric charger	30	-	-	30
Reappropriations	4,687	-	-	4,687
<b>Unassigned for:</b>				
Budget Stabilization	49,089	-	-	49,089
Total fund balances	<u>75,636</u>	<u>165,704</u>	<u>124,302</u>	<u>365,642</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 92,414</u>	<u>\$ 172,105</u>	<u>\$ 125,172</u>	<u>\$ 389,691</u>

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Reconciliation of the Balance Sheet of Governmental Funds to**  
**the Statement of Net Position - Governmental Activities**  
**June 30, 2021**  
**(Amounts in thousands)**

Total fund balances reported on the governmental funds balance sheet	\$ 365,642
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Amounts reported for governmental activities in the statement of net position are different from those reported in the governmental funds balance sheet because of the following:

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

Deferred outflows of resources	60,802
Deferred inflows of resources	(16,250)

Certain receivables are not available to pay for current period expenditures and therefore are deferred in the governmental funds.	919
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Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds.	601,979
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Internal service funds are used by management to charge the costs of activities such as insurance, equipment acquisition and maintenance, and certain employee benefits to individual funds. The assets and liabilities of the internal service funds are therefore included in governmental activities in the statement of net position (excludes capital assets, deferred outflows of resources, deferred inflows of resources, net pension liabilities and net OPEB liabilities reported herein)	80,520
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Some liabilities, including bonds payable and claims payable, are not due and payable in the current period and therefore are not reported in the governmental funds:

Interest payable	(2,143)
Net pension liabilities (Note 11)	(349,296)
Net OPEB liabilities (Note 12)	(88,883)
Claims payable (Note 14 and 16)	(12,619)
Long-term debt (Note 7)	<u>(217,534)</u>

Net position of governmental activities	<u><u>\$ 423,137</u></u>
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**CITY OF PALO ALTO**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Property tax	\$ 56,572	\$ -	\$ 4,329	\$ 60,901
Special assessments	-	-	5	5
Sales tax	29,127	-	-	29,127
Utility user tax	14,642	-	-	14,642
Transient occupancy tax	5,179	-	-	5,179
Documentary transfer tax	10,627	-	-	10,627
Other taxes and fines	683	-	2,816	3,499
Charges for services	25,105	1	-	25,106
Intergovernmental	3,828	10,087	1,337	15,252
Licenses, permits and fees	7,261	-	2,161	9,422
Investment earnings	(161)	1,034	175	1,048
Rental income	13,293	-	-	13,293
Housing In-Lieu - residential	-	-	5,804	5,804
Other revenue	632	247	154	1,033
<b>Total revenues</b>	<b>166,788</b>	<b>11,369</b>	<b>16,781</b>	<b>194,938</b>
<b>EXPENDITURES:</b>				
Current:				
City Council	224	-	-	224
City Manager	2,304	-	-	2,304
City Attorney	2,149	-	-	2,149
City Clerk	748	-	-	748
City Auditor	645	-	-	645
Administrative Services	5,202	-	261	5,463
Human Resources	2,421	-	-	2,421
Public Works	13,265	-	1,427	14,692
Planning and Development Services	15,830	-	1,285	17,115
Office of Transportation	1,936	-	1,437	3,373
Police	41,328	-	36	41,364
Fire	34,918	-	-	34,918
Community Services	26,254	-	236	26,490
Library	8,528	-	-	8,528
Non-Departmental	4,599	-	255	4,854
Capital outlay	-	48,114	-	48,114
Debt service:				
Principal	-	-	2,595	2,595
Interest and fiscal charges	-	-	6,147	6,147
<b>Total expenditures</b>	<b>160,351</b>	<b>48,114</b>	<b>13,679</b>	<b>222,144</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>6,437</b>	<b>(36,745)</b>	<b>3,102</b>	<b>(27,206)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Issuance of debt	-	95,476	6,029	101,505
Original debt premium	-	6,524	-	6,524
Proceeds from sale of capital assets	100	-	-	100
Transfers in (Note 4)	20,880	19,198	3,480	43,558
Transfers out (Note 4)	(13,620)	(2,380)	(9,564)	(25,564)
<b>Total other financing sources (uses)</b>	<b>7,360</b>	<b>118,818</b>	<b>(55)</b>	<b>126,123</b>
<b>Change in fund balances</b>	<b>13,797</b>	<b>82,073</b>	<b>3,047</b>	<b>98,917</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>61,839</b>	<b>83,631</b>	<b>121,255</b>	<b>266,725</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 75,636</b>	<b>\$ 165,704</b>	<b>\$ 124,302</b>	<b>\$ 365,642</b>

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities - Governmental Activities**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

Net change in fund balances - total governmental funds \$ 98,917

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

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

Capital outlay added back to fund balance for current year additions	33,525
Depreciation expense is deducted from fund balance (depreciation expense is net of internal service fund depreciation of \$3,153) (Note 6), which has already been allocated through the internal service fund activities below	(17,136)
Disposal of capital assets	(12,291)

Pension and OPEB contribution made subsequent to the measurement date is an expenditure in the governmental funds, but reported as a deferred outflows of resources in the government-wide financial statements	41,324
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Pension and OPEB expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(50,170)
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Principal payments on long-term liabilities are reported as expenditures in governmental funds when paid. The governmental activities, however, report principal payments as a reduction of long-term debt on the statement of net position. Interest accrued on long-term debt, amortization of premium, and changes in claims payable do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Therefore, the activities associated with these balances are as follows:

Principal paid during the year	2,595
Proceeds from debt issuance	(101,505)
Original debt premium	(6,524)
Change in interest payable	(575)
Amortization of bond premium	405
Change in claims payable	(12,619)

Revenues earned but not available are deferred in the governmental funds but are recognized in the government-wide financial statements. Also, revenues recognized in the governmental funds during the current year that were earned and recognized in previous years in the government-wide financial statements are reported as beginning net position in the statement of activities	(563)
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Internal service funds are used by management to charge the costs of activities, such as insurance, equipment acquisition and maintenance, and employees benefits to individual funds. The portion of the net expense of these internal service funds arising out of their transactions with governmental funds is reported with governmental activities.

Change in net position of governmental activities

7,180	
\$ (17,437)	

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	Budgeted Amounts		Actual, Budgetary	Variance with
	Adopted	Final	Basis	Final Budget
<b>REVENUES:</b>				
Property tax	\$ 52,000	\$ 53,173	\$ 56,572	\$ 3,399
Sales tax	20,500	25,030	29,127	4,097
Utility user tax	15,100	14,080	14,642	562
Transient occupancy tax	14,900	5,123	5,179	56
Documentary transfer tax	4,700	6,875	10,627	3,752
Other taxes and fines	1,925	392	683	291
Charges for services	25,984	24,414	25,105	691
Intergovernmental	2,448	4,580	4,222	(358)
Licenses, permits and fees	7,770	8,366	7,708	(658)
Investment earnings	1,145	1,145	1,062	(83)
Rental income	15,949	15,331	13,293	(2,038)
Other revenues	674	666	732	66
	163,095	159,175	168,952	9,777
Charges to other funds and departments	11,992	11,992	11,661	(331)
Prior year encumbrances	-	7,570	7,570	-
Total revenues	175,087	178,737	188,183	9,446
<b>EXPENDITURES:</b>				
Current:				
City Council	419	509	366	143
City Manager	3,161	3,562	3,492	70
City Attorney	3,485	3,744	3,589	155
City Clerk	1,245	1,293	1,147	146
City Auditor	828	981	962	19
Administrative Services	8,362	8,338	7,897	441
Human Resources	3,554	3,622	3,545	77
Public Works	18,397	19,089	18,553	536
Planning and Development Services	17,386	19,611	18,782	829
Office of Transportation	1,904	2,139	2,010	129
Police	41,733	42,441	42,441	-
Fire	33,607	35,354	35,354	-
Community Services	28,379	28,839	27,769	1,070
Library	8,421	8,655	8,636	19
Non-Departmental	8,237	9,332	9,259	73
Total expenditures	179,118	187,509	183,802	3,707
EXCESS OF REVENUES OVER EXPENDITURES	(4,031)	(8,772)	4,381	13,153
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	21,359	21,154	21,154	-
Transfers out	(17,801)	(13,620)	(13,620)	-
Total other financing sources (uses)	3,558	7,534	7,534	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, BUDGETARY BASIS	\$ (473)	\$ (1,238)	11,915	\$ 13,153
Adjustment to Budgetary Basis:				
Unrealized gain/loss on investments			(1,297)	
Changes in interfund balances			(197)	
Current year encumbrances and reappropriations			10,946	
Prior year encumbrances and reappropriations			(7,570)	
CHANGE IN FUND BALANCE, GAAP BASIS			13,797	
FUND BALANCE AT BEGINNING OF YEAR, GAAP BASIS			61,839	
FUND BALANCE AT END OF YEAR, GAAP BASIS			\$ 75,636	

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Net Position**  
**June 30, 2021**  
**(Amounts in thousands)**

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
<b>ASSETS:</b>				
Current assets:				
Cash and investments available for operations (Note 3)	\$ 46,602	\$ 107,044	\$ 35,983	\$ 30,484
Accounts receivable, net of allowance of \$1,551	6,636	19,244	864	2,996
Interest receivable	228	540	178	149
Due from other government agencies	-	-	-	-
Inventory of materials and supplies	-	-	-	-
Restricted cash and investments with fiscal agents and trustees (Note 3)	2,906	-	-	434
Total current assets	56,372	126,828	37,025	34,063
Noncurrent assets:				
Due from other government agencies	-	-	-	-
Deposits	-	44	-	-
Prepaid expense	67	-	-	-
Capital assets (Note 6):				
Nondepreciable	17,926	35,248	2,236	17,925
Depreciable, net	115,588	174,828	7,075	93,347
Total noncurrent assets	133,581	210,120	9,311	111,272
Total assets	189,953	336,948	46,336	145,335
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Unamortized loss from refunding	65	-	-	84
Pension related (Note 11)	2,660	6,164	349	2,740
OPEB related (Note 12)	757	2,284	83	961
Total deferred outflows of resources	3,482	8,448	432	3,785
<b>LIABILITIES:</b>				
Current liabilities:				
Accounts payable and accruals	2,175	4,663	275	1,185
Accrued salaries and benefits	176	413	19	182
Due to other funds	-	-	-	-
Accrued compensated absences (Note 1)	-	-	-	-
Current portion of long term debt (Note 7)	1,852	100	-	693
Accrued claims payable (Note 14)	-	-	-	-
Total current liabilities	4,203	5,176	294	2,060
Noncurrent liabilities:				
Accrued compensated absences (Note 1)	-	-	-	-
Accrued claims payable (Note 14)	-	-	-	-
Advance from other fund (Note 4)	-	-	-	-
Landfill post-closure liability (Note 9)	-	-	-	-
Net pension liabilities (Note 11)	16,803	40,376	2,587	17,532
Net OPEB liabilities (Note 12)	4,009	13,022	67	5,786
Long term debt, net of unamortized discounts/premiums (Note 7)	26,051	(5)	-	3,223
Total noncurrent liabilities	46,863	53,393	2,654	26,541
Total liabilities	51,066	58,569	2,948	28,601
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
OPEB related (Note 12)	802	2,495	17	1,024
<b>NET POSITION (Note 10):</b>				
Net Investment in capital assets	105,676	209,851	9,311	107,440
Restricted for:				
Debt service	2,906	-	-	434
Supplemental pension	-	-	-	-
Unrestricted (deficit)	32,985	74,481	34,492	11,621
Total net position	\$ 141,567	\$ 284,332	\$ 43,803	\$ 119,495

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

Net position reported in Business-type Activities

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental Activities - Internal Service Funds
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Non-Major Airport	Totals	
\$ 9,358	\$ 16,076	\$ 28,363	\$ 8,361	\$ -	\$ 282,271	\$ 96,806
2,709	2,601	3,297	890	4,084	43,321	98
46	83	139	42	-	1,405	484
-	300	-	-	-	300	-
-	-	-	-	-	-	116
-	-	-	-	-	3,340	37,089
<u>12,113</u>	<u>19,060</u>	<u>31,799</u>	<u>9,293</u>	<u>4,084</u>	<u>330,637</u>	<u>134,593</u>
-	2,100	-	-	-	2,100	-
-	-	-	-	-	44	-
-	133	-	-	-	200	-
4,784	11,152	1,952	12,121	30,565	133,909	5,587
<u>88,204</u>	<u>58,783</u>	<u>3,076</u>	<u>30,801</u>	<u>2,898</u>	<u>574,600</u>	<u>17,354</u>
92,988	72,168	5,028	42,922	33,463	710,853	22,941
<u>105,101</u>	<u>91,228</u>	<u>36,827</u>	<u>52,215</u>	<u>37,547</u>	<u>1,041,490</u>	<u>157,534</u>
-	-	-	-	-	149	-
1,256	3,355	765	695	135	18,119	2,578
<u>368</u>	<u>930</u>	<u>422</u>	<u>152</u>	<u>55</u>	<u>6,012</u>	<u>844</u>
<u>1,624</u>	<u>4,285</u>	<u>1,187</u>	<u>847</u>	<u>190</u>	<u>24,280</u>	<u>3,422</u>
667	1,248	3,127	127	2,965	16,432	1,709
91	242	46	37	18	1,224	250
-	-	-	-	602	602	-
-	-	-	-	-	-	6,327
110	2,187	-	815	-	5,757	-
-	-	-	-	-	-	6,811
<u>868</u>	<u>3,677</u>	<u>3,173</u>	<u>979</u>	<u>3,585</u>	<u>24,015</u>	<u>15,097</u>
-	-	-	-	-	-	9,320
-	-	-	-	-	-	25,720
-	-	-	-	3,036	3,036	-
-	-	6,179	-	-	6,179	-
9,624	24,633	6,661	4,682	889	123,787	17,548
2,212	6,874	2,458	1,083	404	35,915	4,800
238	31,896	-	1,750	-	63,153	-
<u>12,074</u>	<u>63,403</u>	<u>15,298</u>	<u>7,515</u>	<u>4,329</u>	<u>232,070</u>	<u>57,388</u>
<u>12,942</u>	<u>67,080</u>	<u>18,471</u>	<u>8,494</u>	<u>7,914</u>	<u>256,085</u>	<u>72,485</u>
392	1,001	449	163	59	6,402	897
92,640	38,252	5,028	40,357	33,463	642,018	22,941
-	-	-	-	-	3,340	-
-	-	-	-	-	-	37,089
751	(10,820)	14,066	4,048	(3,699)	157,925	27,544
<u>\$ 93,391</u>	<u>\$ 27,432</u>	<u>\$ 19,094</u>	<u>\$ 44,405</u>	<u>\$ 29,764</u>	<u>803,283</u>	<u>\$ 87,574</u>
						3,936
						<u>\$ 807,219</u>

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
<b>OPERATING REVENUES:</b>				
Sales to:				
Customers	\$ 44,154	\$ 124,153	\$ 2,878	\$ 36,583
City departments	2,532	4,167	1,045	542
Surplus energy	-	9,286	-	-
Service connection charges and miscellaneous	1,239	942	12	845
Charges for services	-	-	-	-
Other	887	23,692	1	1,550
Total operating revenues	<u>48,812</u>	<u>162,240</u>	<u>3,936</u>	<u>39,520</u>
<b>OPERATING EXPENSES:</b>				
Purchase of utilities:				
Retail purchase of utilities	21,935	92,088	-	12,750
Surplus energy	-	6,373	-	-
Administrative and general	5,771	9,605	873	4,285
Engineering (operating)	663	2,409	-	571
Resource management and energy efficiency	1,216	6,597	-	968
Operations and maintenance	7,401	17,191	1,249	6,225
Rent	2,225	5,950	52	471
Depreciation	3,127	8,637	420	3,409
Claims payments and changes in estimated self-insurance liability	-	-	-	-
Refund of charges for services	-	-	-	-
Employment benefits	-	-	-	-
Total operating expenses	<u>42,338</u>	<u>148,850</u>	<u>2,594</u>	<u>28,679</u>
Operating income	<u>6,474</u>	<u>13,390</u>	<u>1,342</u>	<u>10,841</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment earnings	366	941	268	205
Interest expense	(1,476)	(7,760)	-	(104)
Gain on disposal of capital assets	-	-	-	-
Loss on disposal of capital assets	(8)	(70)	-	(49)
Other nonoperating revenues	462	-	-	-
Total nonoperating revenues (expenses)	<u>(656)</u>	<u>(6,889)</u>	<u>268</u>	<u>52</u>
Income before transfers and capital contributions	5,818	6,501	1,610	10,893
Capital contributions	533	-	-	-
Transfers in (Note 4)	557	2,582	-	-
Transfers out (Note 4)	(268)	(13,945)	(118)	(7,369)
Change in net position	6,640	(4,862)	1,492	3,524
NET POSITION, BEGINNING OF YEAR	<u>134,927</u>	<u>289,194</u>	<u>42,311</u>	<u>115,971</u>
NET POSITION, END OF YEAR	<u>\$ 141,567</u>	<u>\$ 284,332</u>	<u>\$ 43,803</u>	<u>\$ 119,495</u>

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

Change in net position reported in Business-type Activities

See accompanying notes to the basic financial statements.



Business-Type Activities-Enterprise Funds							Governmental
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Non-Major		Activities- Internal Service Funds	
				Airport	Totals		
\$ 19,654	\$ 18,883	\$ 27,374	\$ 7,275	\$ 1,815	\$ 282,769	\$ -	
162	10,587	860	434	-	20,329	-	
-	-	-	-	-	9,286	-	
263	-	-	-	-	3,301	-	
-	-	-	-	-	-	115,429	
405	1,052	2,402	76	770	30,835	200	
20,484	30,522	30,636	7,785	2,585	346,520	115,629	
10,542	-	17,474	-	-	154,789	-	
-	-	-	-	-	6,373	-	
2,264	-	1,342	1,135	698	25,973	13,212	
351	2,359	260	253	-	6,866	-	
-	-	-	1,127	-	9,908	-	
3,413	20,387	8,529	1,168	632	66,195	12,765	
252	-	981	19	-	9,950	-	
2,849	4,143	81	871	69	23,606	3,153	
-	-	-	-	-	-	8,745	
-	-	-	-	-	-	115	
-	-	-	-	-	-	75,775	
19,671	26,889	28,667	4,573	1,399	303,660	113,765	
813	3,633	1,969	3,212	1,186	42,860	1,864	
42	159	148	77	(19)	2,187	3,891	
(24)	(721)	(197)	(174)	(74)	(10,530)	-	
-	-	-	-	-	-	385	
(1)	-	-	-	-	(128)	-	
-	-	-	-	-	462	5	
17	(562)	(49)	(97)	(93)	(8,009)	4,281	
830	3,071	1,920	3,115	1,093	34,851	6,145	
239	-	-	-	5,619	6,391	-	
-	-	-	-	-	3,139	3,797	
(342)	-	(30)	(154)	-	(22,226)	(2,704)	
727	3,071	1,890	2,961	6,712	22,155	7,238	
92,664	24,361	17,204	41,444	23,052		80,336	
\$ 93,391	\$ 27,432	\$ 19,094	\$ 44,405	\$ 29,764		\$ 87,574	

58  
\$ 22,213

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
Cash flows from operating activities:				
Cash received from customers	\$ 45,811	\$ 141,628	\$ 3,130	\$ 36,977
Cash payments to suppliers for goods and services	(30,814)	(115,045)	(992)	(16,679)
Cash payments to employees	(10,576)	(23,010)	(1,246)	(9,123)
Internal activity- receipts (payments) from (to) other funds	2,532	4,167	1,045	542
Other receipts	887	23,692	1	1,550
Net cash provided by operating activities	7,840	31,432	1,938	13,267
Cash flows from noncapital financing activities:				
Repayment of loans from other funds	-	-	-	-
Interest subsidy received from Build America Bonds	462	-	-	-
Transfers in	557	2,582	-	-
Transfers out	(268)	(13,945)	(118)	(7,369)
Net cash provided by (used in) noncapital financing activities	751	(11,363)	(118)	(7,369)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(3,549)	(12,741)	(398)	(3,543)
Proceeds from sale of capital assets	-	-	-	-
Capital grants and contributions	533	-	-	-
Principal paid on long-term debt	(1,774)	(99)	-	(667)
Interest paid on long-term debt	(1,501)	(7,755)	-	(134)
Net cash used in capital and related financing activities	(6,291)	(20,595)	(398)	(4,344)
Cash flows from investing activities:				
Investment interest received (expenses paid)	379	975	278	211
Net cash provided by investing activities	379	975	278	211
Net change in cash and cash equivalents	2,679	449	1,700	1,765
Cash and cash equivalents, beginning of year	46,829	106,595	34,283	29,153
Cash and cash equivalents, end of year	\$ 49,508	\$ 107,044	\$ 35,983	\$ 30,918
Financial statement presentation:				
Cash and investments available for operations	\$ 46,602	\$ 107,044	\$ 35,983	\$ 30,484
Restricted cash and investments with fiscal agents and trustees	2,906	-	-	434
Cash and cash equivalents, end of year	\$ 49,508	\$ 107,044	\$ 35,983	\$ 30,918
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income	\$ 6,474	\$ 13,390	\$ 1,342	\$ 10,841
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	3,127	8,637	420	3,409
Other	-	-	-	-
Change in assets and liabilities:				
Accounts receivable	418	7,247	240	(451)
Inventory of materials and supplies	-	-	-	-
Deposit	8	-	-	-
Deferred outflow of resources - pension plans	(686)	(1,389)	17	(679)
Deferred outflow of resources - OPEB	31	183	(83)	45
Accounts payable and accruals	(2,070)	2,172	(144)	(287)
Accrued salaries and benefits	15	29	(5)	23
Accrued compensated absences	-	-	-	-
Landfill closure and post-closure care	-	-	-	-
Accrued claims payable	-	-	-	-
Net pension liability	980	2,579	129	894
Net OPEB liability	(79)	(314)	67	(101)
Deferred inflow of resources - pension plans	(266)	(725)	(62)	(274)
Deferred inflow of resources - OPEB	(112)	(377)	17	(153)
Net cash provided by operating activities	\$ 7,840	\$ 31,432	\$ 1,938	\$ 13,267

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental Activities- Internal Service Funds
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Non-Major Airport	Totals	
\$ 20,091	\$ 19,259	\$ 27,385	\$ 7,231	\$ (40)	\$ 301,472	\$ 115,400
(11,507)	(9,786)	(24,905)	(1,153)	2,120	(208,761)	(14,110)
(5,103)	(13,195)	(2,963)	(2,422)	(972)	(68,610)	(86,418)
162	10,587	860	434	-	20,329	(5,765)
405	1,052	1,480	76	770	29,913	5
4,048	7,917	1,857	4,166	1,878	74,343	9,112
-	-	-	-	(1,354)	(1,354)	-
-	-	-	-	-	462	-
-	-	-	-	-	3,139	3,797
(342)	-	(30)	(154)	-	(22,226)	(2,704)
(342)	-	(30)	(154)	(1,354)	(19,979)	1,093
(3,976)	(5,682)	-	(3,053)	(6,050)	(38,992)	(4,828)
-	-	-	-	-	-	484
239	300	-	-	5,619	6,691	-
(104)	(2,131)	-	(775)	-	(5,550)	-
(24)	(719)	(197)	(172)	(74)	(10,576)	-
(3,865)	(8,232)	(197)	(4,000)	(505)	(48,427)	(4,344)
49	158	168	77	(19)	2,276	3,914
49	158	168	77	(19)	2,276	3,914
(110)	(157)	1,798	89	-	8,213	9,775
9,468	16,233	26,565	8,272	-	277,398	124,120
\$ 9,358	\$ 16,076	\$ 28,363	\$ 8,361	\$ -	\$ 285,611	\$ 133,895
\$ 9,358	\$ 16,076	\$ 28,363	\$ 8,361	\$ -	\$ 282,271	\$ 96,806
-	-	-	-	-	3,340	\$ 37,089
\$ 9,358	\$ 16,076	\$ 28,363	\$ 8,361	\$ -	\$ 285,611	\$ 133,895
\$ 813	\$ 3,633	\$ 1,969	\$ 3,212	\$ 1,186	\$ 42,860	\$ 1,864
2,849	4,143	81	871	69	23,606	3,153
-	-	-	-	-	-	5
174	376	11	(44)	(1,855)	6,116	(67)
-	-	-	-	-	-	(14)
-	17	-	-	-	25	-
(145)	(494)	(150)	(75)	77	(3,524)	(275)
17	53	19	8	3	276	37
236	(226)	686	11	2,632	3,010	141
6	34	1	(7)	(1)	95	47
-	-	-	-	-	-	1,403
-	-	(922)	-	-	(922)	-
-	-	-	-	-	-	2,818
373	1,098	375	370	(158)	6,640	681
(38)	(99)	(44)	(16)	(5)	(629)	(89)
(179)	(451)	(104)	(137)	(60)	(2,258)	(462)
(58)	(167)	(65)	(27)	(10)	(952)	(130)
\$ 4,048	\$ 7,917	\$ 1,857	\$ 4,166	\$ 1,878	\$ 74,343	\$ 9,112

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Statement of Fiduciary Net Position**  
**June 30, 2021**  
**(Amounts in thousands)**

	<u>Custodial Funds</u>
ASSETS:	
Cash and investments available for operations (Note 3)	\$ 3,276
Accounts receivable	491
Interest receivable	16
Restricted cash and investments with fiscal agents (Note 3)	<u>2,705</u>
Total assets	<u>6,488</u>
LIABILITIES:	
Accounts payable and accruals	<u>411</u>
NET POSITION:	
Restricted for:	
Governmental entities	1,260
Bondholders of special assessment bonds	<u>4,817</u>
Total net position	<u><u>\$ 6,077</u></u>

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Statement of Changes in Fiduciary Net Position**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	<u>Custodial Funds</u>
ADDITIONS:	
Franchise and other fees collected	\$ 1,821
Special assessments collected	2,407
Investment earnings	9
Other	5
Total additions	<u>4,242</u>
DEDUCTIONS:	
Administrative and general	39
Distribution to governmental entities	1,538
Debt services payments	<u>2,409</u>
Total deductions	<u>3,986</u>
Changes in net position	256
NET POSITION, BEGINNING OF YEAR	<u>5,821</u>
NET POSITION, END OF YEAR	<u><u>\$ 6,077</u></u>

See accompanying notes to the basic financial statements.

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**CITY OF PALO ALTO**  
**Index to the Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

	<i><b>Page</b></i>
1. Summary of Significant Accounting Policies .....	51
2. Budgets and Budgetary Accounting .....	60
3. Cash and Investments .....	61
4. Interfund Transactions .....	67
5. Notes and Loans Receivable .....	69
6. Capital Assets .....	74
7. Long-Term Debt.....	80
8. Special Assessment Debt.....	86
9. Landfill Post-Closure Maintenance .....	86
10. Net Position and Fund Balances.....	87
11. Pension Plans.....	90
12. Other Post-Employment Benefits (OPEB) .....	97
13. Deferred Compensation Plan .....	101
14. Risk Management.....	101
15. Joint Ventures.....	103
16. Commitments and Contingencies .....	105
17. Subsequent Event.....	108

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

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**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

**(a) Reporting Entity**

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

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

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

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

**(b) Basis of Presentation**

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

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

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

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

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

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

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

The City also reports the following funds:

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

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

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

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

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

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

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

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

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

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

**(d) Basis of Accounting**

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

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

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

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**(e) Cash and Cash Equivalents**

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

**(f) Investments**

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

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

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

**(h) Prepaid items**

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

**(i) Compensated Absences**

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

During the fiscal year ended June 30, 2021, changes to the compensated absences liabilities were as follows (in thousands):

Beginning balance	\$ 14,244
Additions	8,751
Payments	<u>(7,348)</u>
Ending balance	<u>\$ 15,647</u>
Current portion	<u>\$ 6,327</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**(j) Property Tax**

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

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

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

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

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

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

**(l) Pensions and OPEB**

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

**(m) Rounding**

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**(n) Effects of New Pronouncements**

As of July 1, 2020, the City implemented the following GASB Statement:

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The statement provides recognition and measurement guidance for situations in which a government is a beneficiary of these agreements. The City evaluated all funds and activities in accordance with the statement and determine that the Cable Joint Powers Authority and the District's activities previously reported as agency funds should be reported as custodial funds.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*. The objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2021.

In October 2021, the GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This statement establishes the term annual comprehensive financial report and its acronym ACFR and eliminates the prior name and acronym in generally accepted accounting principles for state and local governments. No changes were made to the report's structure or content. Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2021.

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

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the City's fiscal year ending June 30, 2022.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this statement are 1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and 2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for the City's fiscal year ending June 30, 2022.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosure. The requirements of this statement are effective for the City's fiscal year ending June 30, 2023.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. The requirements of this statement are effective for the City's fiscal year ending June 30, 2022.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate. The requirements of this statement are effective for the City's fiscal year ending June 30, 2022.

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

**(o)      *Use of Estimates***

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

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING**

1. The City Manager submits proposed operating and capital budgets to the City Council for the fiscal year commencing the following July 1. The budget includes planned expenditures and the means of financing them.
2. Public hearings are conducted to obtain comments on the proposed budgets.
3. The budget is approved with the adoption of a budget ordinance for all funds except Custodial Funds.
4. Per the Palo Alto Municipal Code, only the City Manager is authorized to reallocate funds from contingency accounts maintained in the General Fund. Amendments to appropriations to departments in the General Fund, to total appropriations for all other budgeted funds, or to transfer of appropriations between funds, require approval by the City Council. Amendments to budgeted revenue and expenditures are added to or subtracted from the Adopted Budget and the resulting totals are reflected as Final Budget amounts.
5. As defined in the Palo Alto Municipal Code, expenditures may not exceed budgeted appropriations at the department level for the General Fund, and at the fund level for Enterprise, Internal Service, Special Revenue and Debt Service Funds.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING (Continued)**

6. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP), except that unrealized gains or losses on investments, changes in advances to other funds and notes receivable are not recognized on a budgetary basis and encumbrances are treated as budgetary expenditures when incurred.
7. Expenditures for the Capital Projects Fund are budgeted and maintained at a project level for the life of the project. Budget to actual comparisons for these expenditures have been excluded from the accompanying financial statements.

**NOTE 3 – CASH AND INVESTMENTS**

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

**Policies**

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

**Classification**

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

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash and investments:				
Available for operations	\$ 310,091	\$ 282,271	\$ 3,276	\$ 595,638
With fiscal agents and trustees	133,264	3,340	2,705	139,309
Total cash and investments	<u>\$ 443,355</u>	<u>\$ 285,611</u>	<u>\$ 5,981</u>	<u>\$ 734,947</u>

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Government Securities	10 years (*)	N/A	No Limit	No Limit
U.S. Federal Agency Securities (C)	10 years (*)	N/A	No Limit (A)	No Limit
Certificates of Deposit	10 years (*)	N/A	20%	10% of the par value of portfolio
Bankers Acceptances	180 days (D)	N/A (D)	30%	\$5 million
Commercial Paper	270 days	A-1	15%	\$3 million (B)
Local Agency Investment Fund	N/A	N/A	No Limit	\$75 million per account
Short-Term Repurchase Agreements	1 year	N/A	No Limit	No Limit
City of Palo Alto Bonds	N/A	N/A	No Limit	No Limit
Money Market Mutual Funds	N/A	N/A (E)	No Limit	No Limit
Mutual Funds (F)	N/A	N/A	20%	10%
Negotiable Certificates of Deposit	10 years (*)	N/A	10%	\$5 million
Medium-Term Corporate Notes	5 years	AA	10%	\$5 million
Bonds of State of California Municipal Agencies & Other U.S. States	10 years (*)	AA/AA2	30%	No Limit
Supranational	5 years	AA/AA2	20%	10% of the par value of portfolio

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

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

**Debt Agreements:**

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

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

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

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

**Fair Value Measurements**

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

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

The following is a summary of the fair value measurements of the City as of June 30, 2021 (in thousands):

Type of Investment	June 30, 2021	Level 2
Investments by fair value hierarchy		
U.S. Federal Agency Securities	\$ 243,526	\$ 243,526
U.S. Treasury Notes	13,680	13,680
Local Government Bonds	172,085	172,085
Negotiable Certificates of Deposit	36,271	36,271
Corporate Bonds	24,491	24,491
Supranational Bonds	31,792	31,792
Total investments by fair value hierarchy	521,845	<u>\$ 521,845</u>
Investment not subject to fair value hierarchy		
Money Market Mutual Funds	103,428	
Equity Mutual Funds (Irrevocable for Pension)	37,089	
California Asset Management Program	3,304	
Local Agency Investment Fund	67,394	
Total investments not subject to fair value hierarchy	<u>211,215</u>	
Total investments measured at fair value	<u>\$ 733,060</u>	

**Local Agency Investment Fund**

The City participates in the Local Agency Investment Fund (LAIF) which, under the oversight of the Treasury of the State of California, is regulated by California Government Code Section 16429. LAIF management calculates the fair value and cost of the entire LAIF pool. The City adjusts its cost basis invested in LAIF to fair value based on this ratio. The fair value of the City's position in the pool is the same as the value of the pool share. The balance available for withdrawal on demand is based on

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is part of the State's Pooled Money Investment Account (PMIA). The total balance of the PMIA is approximately \$193.3 billion as of June 30, 2021. Of that amount, 97.7 percent was invested in nonderivative financial products and 2.3 percent in structured notes and asset backed securities. At June 30, 2021, LAIF had a weighted average maturity of 291 days.

**Money Market Mutual Funds**

Money market mutual funds are available for withdrawal on demand and at June 30, 2021, had a weighted average maturity of approximately 1 month.

**California Asset Management Program**

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The City's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. The City reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2021, the fair value approximated the City's cost. CAMP had a weighted average maturity of 52 days at June 30, 2021.

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. As of June 30, 2021, the City's investments consisted of the following (in thousands):

Type of Investment	Maturities				Total
	Less Than One Year	One to Three Years	Three to Five Years	Over Five Years	
U.S. Federal Agency Securities	\$ 23,669	\$ 50,617	\$ 75,136	\$ 94,104	\$ 243,526
U.S. Treasury Notes	1,517	9,215	2,948	-	13,680
Local Government Bonds	24,545	27,492	47,841	72,207	172,085
Corporate Bonds	860	7,547	16,084	-	24,491
Money Market Mutual Funds	103,428	-	-	-	103,428
Equity Mutual Funds					
(Irrevocable for Pension)	37,089	-	-	-	37,089
Negotiable Certificates of Deposit	10,287	12,527	9,801	3,656	36,271
California Asset Management Program	3,304	-	-	-	3,304
Supranational Bonds	-	4,257	27,535	-	31,792
Local Agency Investment Fund	67,394	-	-	-	67,394
Total Investments	<u>\$ 272,093</u>	<u>\$ 111,655</u>	<u>\$ 179,345</u>	<u>\$ 169,967</u>	<u>733,060</u>
Cash in bank and on hand					1,887
Total Cash and Investments					<u>\$ 734,947</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

At June 30, 2021, the City's investments (including investments held by bond trustees) include U.S. Federal Agency Callable Securities totaling \$137.0 million. These investments are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above) and are subject to early redemption.

**Credit Risk**

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

Presented below is the actual rating as provided by Standard & Poor's, Moody's and/or Fitch's investment rating system as of June 30, 2021, for each investment type (in thousands):

Type of Investment	Rating	Total
U.S. Federal Agency Securities	AA+	\$ 243,526
Corporate Bonds	AAA	19,076
	AA+	5,415
Total Corporate Bonds		24,491
Local Government Bonds	AAA	52,338
	AA+	50,433
	AA	41,241
	N/A	28,073
Total Government Bonds		172,085
Supranational Bonds	AAA	31,792
Money Market Mutual Funds	AAA	103,428
Subtotal rated investments		575,322
Not Applicable:		
U.S. Treasury Notes		13,680
Not Rated:		
California Asset Management Program		3,304
Local Agency Investment Fund		67,394
Negotiable Certificates of Deposit		36,271
Equity Mutual Funds (Irrevocable for Pension)		37,089
Cash in bank and on hand		1,887
Total Cash and Investments		\$ 734,947

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Concentration of Credit Risk**

Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5 percent or more of total City portfolio investments are as follows at June 30, 2021 (in thousands):

Investments	Reporting Type	Fair Value at Year-End
Federal Agricultural Mortgage Corporation	U.S. Federal Agency Securities	\$ 88,423
Federal Home Loan Mortgage Corporation	U.S. Federal Agency Securities	45,987
Federal Home Loan Bank	U.S. Federal Agency Securities	43,991
Federal Farm Credit Bank	U.S. Federal Agency Securities	39,439

**Custodial Credit Risk**

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

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**NOTE 4 – INTERFUND TRANSACTIONS**

**Transfers Between Funds**

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to subsidize a fund. Less often, a transfer may be made to open or close a fund. Transfers between City funds during fiscal year 2021 were as follows on the following page (in thousands):

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
General Fund	Nonmajor Governmental Funds	\$ 394 A
	Electric Services Fund	13,639 B
	Gas Services Fund	6,847 B
		<u>20,880</u>
Capital Projects Fund	General Fund	9,294 C
	Nonmajor Governmental Funds	9,170 C
	Water Services Fund	84 C
	Electric Services Fund	165 C
	Fiber Optics Fund	10 C
	Gas Services Fund	69 C
	Wastewater Collection Fund	41 C
	Refuse Fund	10 C
	Storm Drainage Fund	150 C
	Internal Service Funds	<u>205 C</u>
		<u>19,198</u>
Nonmajor Governmental Funds	General Fund	1,019 A
	Capital Projects Fund	2,380 A
	Water Services Fund	13 A
	Electric Services Fund	24 A
	Fiber Optics Fund	1 A
	Gas Services Fund	10 A
	Wastewater Collection Fund	6 A
	Internal Service Funds	<u>27 A</u>
		<u>3,480</u>
Water Services Fund	Gas Services Fund	279 C
	Wastewater Collection Fund	<u>278 C</u>
		<u>557</u>
Electric Services Fund	General Fund	2,082 D
	Water Services Fund	137 C
	Gas Services Fund	136 C
	Fiber Optics Fund	102 C
	Internal Service Funds	<u>125 C</u>
		<u>2,582</u>
Internal Service Funds	General Fund	1,225 E
	Water Services Fund	34 E
	Electric Services Fund	117 E
	Fiber Optics Fund	5 E
	Gas Services Fund	28 E
	Wastewater Collection Fund	17 E
	Refuse Fund	20 E
	Storm Drainage Services Fund	4 E
	Internal Service Funds	<u>2,347 F</u>
		<u>3,797</u>
	Total	<u>\$ 50,494</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

The reasons for these transfers are set forth below:

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

**Current Interfund Balances**

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2021, the non-major Street Improvement Special Revenue Fund, the non-major Federal Revenue Special Revenue Fund, and the non-major Airport Enterprise Fund owed the General Fund \$206,000, \$135,000, and \$602,000, respectively.

**Long-Term Interfund Advance**

On December 6, 2010, the City Council accepted an Airport Business Plan of the Palo Alto Airport (PAO) and approved creation of the Airport Enterprise Fund to facilitate the transition of PAO control from the County of Santa Clara to the City. The City Council approved six separate general fund advances to the non-major Airport Enterprise Fund. All advances bear interest equal to the average return yield on the City's investment portfolio. The six separate advances and interest incurred have been consolidated and are scheduled to be repaid by June 2034. At June 30, 2021, the outstanding advances was \$3.0 million.

**Internal Balances**

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**NOTE 5 – NOTES AND LOANS RECEIVABLE**

At June 30, 2021, the City's notes and loans receivable totaled (in thousands):

Palo Alto Housing Corporation:	
Tree House Apartments	\$ 5,344
Emerson Street Project	375
Alma Single Room Occupancy Development	2,222
Barker Hotel	2,111
Sheridan Apartments	2,222
Oak Court Apartments, L.P.	7,834
El Dorado Palace, LLC	150
Mid-Peninsula Housing Coalition:	
Palo Alto Gardens Apartments	100
Community Working Group, Inc.	1,280
Opportunity Center Associates, L.P.	945
Home Rehabilitation Loans	46
Executive Relocation Assistance Loans	826
Below Market Rate Assessment Loans	53
Oak Manor Townhouse Water System	114
Lytton Gardens Assisted Living	101
Emergency Housing Consortium	75
Alma Gardens Apartments	1,150
2811-2825 Alma Street Acquisition	1,890
Palo Alto Family Housing, 801 Alma Street	6,422
Palo Alto Senior Housing Project - Stevenson House, LP	901
MP Palo Alto Garden, LLC	672
Colorado Park Housing Corporation	204
Buena Vista Mobile Home Park – Santa Clara County	14,500
Wilton Court Apartments	18,752
	<hr/>
Total Notes and Loans Receivable	49,537
Less: Valuation Allowance	(14,612)
	<hr/>
Total Notes and Loans Receivable, Net	\$ 53,677
	<hr/>

**Housing Loans**

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Tree House Apartments**

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

**Emerson Street Project**

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

**Alma Single Room Occupancy Development**

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

**Barker Hotel**

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

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

**Sheridan Apartments**

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

**El Dorado Palace, LLC**

On June 22, 2015, the City approved a loan to PAHC in the amount of \$375,000 to increase the supply of affordable low income housing in the City. The City loaned \$52,000 and \$13,000 in June 2017 and March 2018, respectively. In February 2019, the City loaned an additional \$85,000. The loan bears three percent (3%) interest, however in the event of default will accrue at the lesser of 8% or the highest rate permitted by law. The term of the loan shall expire 55 years unless the City agree to extend an additional 44 years. As of June 30, 2021, the outstanding balance was \$150,000.

**Palo Alto Gardens Apartments**

On April 22, 1999, the City loaned \$1.0 million to Mid-Peninsula Housing Coalition (the Coalition) for the purchase and rehabilitation of a 155-unit complex for the continuation of low-income housing. The loan was funded with \$659,000 of CDBG funds and \$341,000 of Housing In-Lieu funds. The two notes bear interest at 3 percent and are secured by second deeds of trust and a City Affordability Reserve Account held by the Coalition. The remaining principal balance is due in 2039. As of June 30, 2021, the outstanding balance was \$100,000.

**Community Working Group, Inc.**

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

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

On July 19, 2004, the City loaned \$750,000 for a 55-year term to Opportunity Center Associates, L.P. for construction of 89 units of rental housing for extremely low-income and very low-income households. The loan was funded with \$750,000 of residential housing funds. The note bears 3 percent interest and is secured by a deed of trust. The loan remains outstanding and becomes due at the end of the 55-year term. During fiscal year 2019, the City received \$25,000 in principal payments. On April 17, 2019, the City approved up to an additional \$220,000 loan drawn from CDBG for the improvement of rental housing. In February 2019 and April 2019, the City loaned \$191,000 and \$29,000, respectively. The note bears 3 percent interest, and all payments of interest and principal shall be deferred until July 19, 2103. The loan balance owed as of June 30, 2021 was \$945,000.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Home Rehabilitation Loans**

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

**Executive Relocation Assistance Loans**

The City Council may authorize a mortgage loan as part of a relocation assistance package to executive staff. The loans are secured by first deeds of trust, and interest is adjusted annually based on the rate of return of invested funds of the City for the year ended June 30 plus one-quarter of a percent. Principal and interest payments are due monthly. Employees must pay any outstanding balance on their loans within a certain period after ending employment with the City. During the year ended June 30, 2020, the City entered into a 30-year loan with the City Manager for \$845,000. The purchase cost for the City Manager's home was \$3.4 million and the City holds 75 percent equity share. During the year ended June 30, 2021, the City Manager paid \$21,000 for capital improvements and \$100,000 to the City to exercise a one-time option to purchase a portion of the City's equity share which decreased to 71.43 percent. As of June 30, 2021, the outstanding balance was \$826,000.

**Below Market Rate Assessment Loans**

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

**Oak Manor Townhouse Water System**

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

**Lytton Gardens Assisted Living**

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

**Emergency Housing Consortium**

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Alma Garden Apartments**

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

**2811-2825 Alma Street Acquisition**

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

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

On February 14, 2011, the City agreed to loan Palo Alto Family, LP up to \$9.3 million for the purposes of predevelopment expenses and acquiring certain real property for the Alma Street Affordable Multi-Family Rental Housing Project. The loan bears simple interest of 3 percent. Principal and interest are due and payable during the term of the agreement on a “residual receipt” basis as described in the agreement. Except in the case of default, all remaining principal and interest shall be payable on the Restriction Termination Date as defined in the agreement. As of June 30, 2021, the outstanding amount is \$6.4 million.

**Palo Alto Senior Housing Project – Stevenson House, LP**

On October 1, 2015, the City entered into an affordable housing fund loan agreement with PASHPI Stevenson House LP, a California limited partnership, in the principal amount of \$1 million to assist in the rehabilitation of the Stevenson House. The loan bears simple interest of 3 percent. As of June 30, 2021, the loan outstanding balance is \$901,000 and is due at the end of the 55-year term.

**MP Palo Alto Garden, LLC**

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

**Colorado Park Housing Corporation**

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

**Wilton Court Apartments**

In October 2020, the City entered into a predevelopment and construction loan agreement with Wilton ECR L.P. to construct approximately fifty-nine (59) residential rental units on property located at 3703-3709 El Camino Real with the City. Fifty-eight (58) would be affordable to low, very low, and extremely low-income households earning between thirty percent to sixty percent of area median income as determined by the United States Department of Housing and Urban Development, of which twenty-one (21) of the units will be designated for persons with developmental disabilities. The City entered into a loan agreement with Wilton ECR L.P. in the amount of \$18.8 million. The loan bear interest rate of 0% until the date of the permanent closing and 3% commencing the date of the permanent closing. The loan matures on December 31, 2077. During the year, \$18.8 million was drawn. As of June 30, 2021, the outstanding balance was \$18.8 million.

**NOTE 6 – CAPITAL ASSETS**

**Valuation**

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

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

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Governmental Activities**

Changes in the capital assets for governmental activities during the year ended June 30, 2021 were (in thousands):

	Balance July 1, 2020	Additions	Retirements	Transfers	Balance June 30, 2021
<i>Governmental activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 82,206	\$ -	\$ (75)	\$ -	\$ 82,131
Street trees	14,787	165	(127)	-	14,825
Intangible assets - Easement	3,567	-	-	-	3,567
Construction in progress	139,365	33,143	(11,934)	(22,761)	137,813
Total nondepreciable capital assets	239,925	33,308	(12,136)	(22,761)	238,336
Depreciable capital assets:					
Buildings and structures	251,119	-	(25)	21,003	272,097
Intangible assets - Software	279	-	-	-	279
Equipment	15,737	217	(520)	1,758	17,192
Roadway network	335,202	-	-	-	335,202
Recreation and open space network	35,186	-	-	-	35,186
Total depreciable capital assets	637,523	217	(545)	22,761	659,956
Less accumulated depreciation:					
Buildings and structures	(105,984)	(7,728)	1	-	(113,711)
Intangible assets - Software	(279)	-	-	-	(279)
Equipment	(8,856)	(460)	389	-	(8,927)
Roadway network	(171,522)	(7,694)	-	-	(179,216)
Recreation and open space network	(15,867)	(1,254)	-	-	(17,121)
Total accumulated depreciation	(302,508)	(17,136)	390	-	(319,254)
Depreciable capital assets, net	335,015	(16,919)	(155)	22,761	340,702
Internal service fund capital assets					
Construction in progress	2,723	2,864	-	-	5,587
Equipment	63,476	1,964	(2,415)	-	63,025
Less accumulated depreciation	(44,834)	(3,153)	2,316	-	(45,671)
Net internal service fund capital assets	21,365	1,675	(99)	-	22,941
Governmental activities capital assets, net	\$ 596,305	\$ 18,064	\$ (12,390)	\$ -	\$ 601,979

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Business-Type Activities Capital Assets**

Changes in the capital assets for the business-type activities during the year ended June 30, 2021 were (in thousands):

	Balance July 1, 2020	Additions	Retirements	Transfers	Balance June 30, 2021
<i>Business-type activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 4,973	\$ -	\$ -	\$ -	\$ 4,973
Construction in progress	121,096	38,420	-	(30,580)	128,936
Total nondepreciable capital assets	126,069	38,420	-	(30,580)	133,909
Depreciable capital assets:					
Buildings and structures	74,568	-	-	-	74,568
Infrastructure	633	-	-	-	633
Transmission, distribution and treatment systems	884,791	572	(1,154)	30,580	914,789
Total depreciable capital assets	959,992	572	(1,154)	30,580	989,990
Less accumulated depreciation:					
Buildings and structures	(16,141)	(1,393)	-	-	(17,534)
Infrastructure	(65)	(21)	-	-	(86)
Transmission, distribution and treatment systems	(376,604)	(22,192)	1,026	-	(397,770)
Total accumulated depreciation	(392,810)	(23,606)	1,026	-	(415,390)
Depreciable capital assets, net	567,182	(23,034)	(128)	30,580	574,600
Business-type activities capital assets, net	\$ 693,251	\$ 15,386	\$ (128)	\$ -	\$ 708,509

**Capital Asset Contributions**

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

**Depreciation Allocation**

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

<i>Governmental Activities</i>		<i>Business-type Activities</i>	
City Manager	\$ 22	Water	\$ 3,127
City Attorney	1	Electric	8,637
City Clerk	4	Fiber Optics	420
City Auditor	1	Gas	3,409
Administrative Services	4	Wastewater Collection	2,849
Public Works	10,530	Wastewater Treatment	4,143
Planning and Development Services	419	Refuse	81
Office of Transportation	9	Storm Drainage	871
Police	89	Airport	69
Fire	392		<u>\$ 23,606</u>
Community Services	3,297		
Library	2,368		
Internal Service Funds	3,153		
	<u>\$ 20,289</u>		

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Construction In Progress**

Construction in progress as of June 30, 2021 is comprised of the following (in thousands):

<b>Governmental Activities</b>	<b>Expended to June 30, 2021</b>
California Avenue Parking Garage	\$ 48,522
Highway 101 Pedestrian/Bicycle Overpass	19,617
New Public Safety Building	17,163
Charleston/Arastradero Corridor	13,136
Bicycle Boulevards Implementation Project	9,163
Traffic Signal Upgrades	4,875
Railroad Grade Separation	3,772
Technology Fund	3,748
JMZ Renovation	2,928
Animal Shelter Renovation	2,739
Rinconada Park Improvements	2,508
Vehicle Fund	1,839
Newell Road Bridge/SFC Bridge Replacement	1,829
Cubberley Track and Field Replacement	1,808
New Downtown Parking Garage	1,440
Quarry Road	1,282
Art in Public Places	1,027
Tennis & Basketball Court Resurfacing	908
Municipal Service Center Improvements	571
Emerg Vehicle Traffic Signal Preempt Sys	486
Park Wayfinding Design	475
Civic Center Electrical Upgrade	416
Other construction in progress	3,148
Total Governmental Activities	<u>\$ 143,400</u>
<b>Business-type Activities</b>	<b>Expended to June 30, 2021</b>
Airport's Apron Reconstruction	\$ 30,464
Electric distribution system improvements	22,752
Gas system extension replacements and improvements	17,800
Storm drainage structural and water quality improvements	11,779
Water quality control plant equipment replacement and lab facilities	7,528
Sewer system rehabilitation and extensions	4,241
Water system extension replacements and improvements	2,958
Other electrical improvements projects	2,148
Other construction in progress	29,266
Total Business-type Activities	<u>\$ 128,936</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Construction In Progress Commitments**

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

- New Public Safety Building - \$97.1 million
- Charleston Arastradero Corridor – \$7.4 million
- Municipal Service Center Improvements - \$6.0 million
- Churchill Ave/Alma - \$4.2 million
- Railroad Grade Separation - \$4.0 million
- Highway 101 Pedestrian/Bicycle Overpass - \$3.7 million
- Vehicle Replacements - \$3.3 million

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

- Seismic Water Systems Upgrades - \$5.3 million
- Gas Main Replacement Project 23 - \$6.9 million
- Primary Sedimentation Tank Rehabilitation - \$11.8 million
- Airport Apron Reconstruction Phase 1 - \$23.3 million

**Vehicle Registration Fees (VRF)**

In fiscal year 2021, the City received VRF funds from the Santa Clara Valley Transportation Authority and expended the full amount on capital expenditures for the Overlay Resurfacing Project (PE-86070) (in thousands):

Starting VRF balance July 1, 2020	\$ -
VRF revenue	444
VRF interest earned	2
VRF expense	(446)
Ending VRF balance June 30, 2021	<u>\$ -</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**NOTE 7 – LONG-TERM DEBT**

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

	Original Issue Amount	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021	Current Portion
<b>Governmental Activities Debt:</b>						
2010 General Obligation Bonds, 3.25% - 5%, due 08/01/2040	\$ 55,305	\$ 43,295	\$ -	\$ 1,330	\$ 41,965	\$ 1,395
2013A General Obligation Bonds, 2 - 5%, due 08/01/2041	20,695	15,480	-	450	15,030	465
2018 Capital Improvement Project and Refinancing Certificates of Participation, 2.2%- 4.22%, due 11/1/2047	8,970	8,755	-	185	8,570	190
2019 California Ave Parking Garage Certificates of Participation, Series A & B 2.5%-5%, due 11/1/2048	37,370	36,995	-	630	36,365	645
2021 Public Safety Building Certificates of Participation, 2%-5%, due 11/1/2050	101,505	-	101,505	-	101,505	-
Add: Unamortized Premium	-	7,980	6,524	405	14,099	569
<b>Total Governmental Activities Debt</b>	<b>\$ 223,845</b>	<b>\$ 112,505</b>	<b>\$ 108,029</b>	<b>\$ 3,000</b>	<b>\$ 217,534</b>	<b>\$ 3,264</b>
<b>Business-type Activities Debt:</b>						
<b>Utility Revenue Bonds</b>						
1999 Refunding, 5.125-5.25%, due 06/01/2024	\$ 17,735	\$ 6,660	\$ -	\$ 1,540	\$ 5,120	\$ 1,620
2009 Series A, 1.80-5.95%, due 06/01/2035	35,015	25,510	-	1,180	24,330	1,235
2011 Refunding, 3-4%, due 06/01/2035	17,225	7,890	-	1,210	6,680	1,260
Add: Unamortized Premium	-	479	-	81	398	-
<b>Energy Tax Credit Bonds</b>						
2007 Series A, 0%, Due 12/15/2021	1,500	200	-	100	100	100
Less: Unamortized Discount	-	(11)	-	(5)	(6)	-
<b>Total Bonds</b>	<b>71,475</b>	<b>40,728</b>	<b>-</b>	<b>4,106</b>	<b>36,622</b>	<b>4,215</b>
<b>State Water Resources Loans</b>						
<b>Direct Borrowings:</b>						
2007, 1.02%, due 06/30/2029	9,000	4,050	-	450	3,600	450
2009, 2.6%, due 11/30/2030	8,500	5,258	-	419	4,839	430
2017, 1.8%, due 5/31/2049	29,684	24,500	-	651	23,849	662
<b>Total Direct Borrowings</b>	<b>47,184</b>	<b>33,808</b>	<b>-</b>	<b>1,520</b>	<b>32,288</b>	<b>1,542</b>
<b>Total Business-type Activities Debt</b>	<b>\$ 118,659</b>	<b>\$ 74,536</b>	<b>\$ -</b>	<b>\$ 5,626</b>	<b>\$ 68,910</b>	<b>\$ 5,757</b>

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Description of Long-Term Debt Issues**

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

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

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

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

The City's 2010 and 2013A GO Bonds are general obligations of the City, secured and payable solely from ad valorem property taxes levied by the City and collected by the County of Santa Clara. The City is empowered and obligated to annually levy ad valorem taxes for the payment of the Bonds and the interest thereon upon all property within the City subject to taxation by the City, without limitation of rate or amount (except certain personal property which is taxable at limited rates) until the final maturity dates of the bonds on August 1, 2040 and August 1, 2041 respectively. For the fiscal year ended June 30, 2021, the City received \$4.3 million in ad valorem property taxes for principal of \$1.8 million and interest of \$2.6 million for the 2010 and 2013A GO Bonds.

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

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

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

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$5.1 million principal and \$0.5 million interest as the remaining debt service on the bonds, which is scheduled to occur in fiscal year 2024. For fiscal year 2021, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$59.1 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$43.3 million. Net Revenues available for debt service amounted to \$15.8 million, which represents coverage of 8.4 times over the \$1.9 million in debt service.

**2009 Water Revenue Bonds, Series A** – On October 6, 2009, the City issued \$35.0 million of Water Revenue Bonds to finance certain improvements to the City’s water utility system. Principal payments are due annually on June 1, and interest payments are due semi-annually on June 1 and December 1 from 1.80 percent to 5.95 percent. The 2009 Revenue Bonds are secured by net revenues generated by the Water Services Fund. The 2009 Bonds were issued as bonds designated as “Direct Payment Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009 (“Build America Bonds”). The City expects to receive a cash subsidy payment from the United States Treasury equal to 35 percent of the interest payable on the 2009 Bonds. The lien of the 1995 Bonds on the Net Revenues is senior to the lien on Net Revenues securing the 2009 Bonds and the 2011 Bonds. The City received subsidy payments amounting to \$462,000, which represents 30.8 percent of the interest payments due on December 1 and June 1.

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$24.3 million principal and \$11.6 million interest as the remaining debt service on the bonds, which is scheduled to occur in fiscal year 2035. For fiscal year 2021, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$49.2 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$39.2 million. Net Revenues available for debt service amounted to \$10.0 million, which represented coverage of 3.9 times over the \$2.6 million in debt service.

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

The pledge of future Net Revenues of the above bonds ends upon repayment of the \$6.7 million principal and \$0.6 million interest as remaining debt service on the bonds, which is scheduled to occur in fiscal year 2026. For fiscal year 2021, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$88.9 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$64.5 million. Net Revenues available for debt service amounted to \$24.4 million, which represented coverage of 16.7 times over the \$1.5 million in debt service.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

The pledge of future Electric Fund Net Revenues ends upon repayment of the \$0.1 million remaining debt service on the bonds, which is scheduled to occur in fiscal year 2022. For fiscal year 2021, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$163.2 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$140.2 million. Net Revenues available for debt service amounted to \$23.0 million, which represented coverage of 229.7 times over the \$0.1 million in debt service.

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

Concurrently with the loan, the City entered into various other agreements including a cost sharing arrangement with the City of Mountain View. Pursuant to that agreement, City of Mountain View agreed to finance a portion of the project with a \$6.0 million loan repayable to the City. This loan has been recorded as “Due from other government agencies” in the accompanying financial statements. The balance due to the City at June 30, 2021 was \$2.4 million.

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

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

For the Year Ending June 30	Governmental Activities			Business-Type Activities					
	Principal	Interest	Total	Bonds			Direct Borrowings		
				Principal	Interest	Total	Principal	Interest	Total
2022	\$ 2,695	\$ 7,762	\$ 10,457	\$ 4,215	\$ 1,797	\$ 6,012	\$ 1,542	\$ 317	\$ 1,859
2023	2,795	7,462	10,257	4,300	1,616	5,916	1,566	300	1,866
2024	5,045	7,286	12,331	4,485	1,427	5,912	1,589	283	1,872
2025	5,280	7,062	12,342	2,790	1,229	4,019	1,613	266	1,879
2026	5,545	6,802	12,347	2,900	1,121	4,021	1,638	248	1,886
2027-2031	32,115	29,450	61,565	8,645	4,178	12,823	7,679	962	8,641
2032-2036	39,895	21,590	61,485	8,895	1,361	10,256	4,105	602	4,707
2037-2041	45,720	13,356	59,076	-	-	-	4,488	432	4,920
2042-2046	33,080	6,842	39,922	-	-	-	4,907	246	5,153
2047-2051	31,265	1,836	33,101	-	-	-	3,161	51	3,212
Total	<u>\$ 203,435</u>	<u>\$ 109,448</u>	<u>\$ 312,883</u>	<u>\$ 36,230</u>	<u>\$ 12,729</u>	<u>\$ 48,959</u>	<u>\$ 32,288</u>	<u>\$ 3,707</u>	<u>\$ 35,995</u>

**Debt Call Provisions**

Long-term debt as of June 30, 2021 is callable on the following terms and conditions:

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Leasing Arrangements**

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

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

**Events of Default and Acceleration Clauses**

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

**NOTE 8 – SPECIAL ASSESSMENT DEBT**

**Special Assessment Debt with no City Commitment**

On February 29, 2012, the District issued Limited Obligation Refunding Improvement Bonds (2012 Bonds), but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on properties in this District. The City is in no way for the repayment of the Bonds, but is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings, when appropriate. Therefore, this debt is not included in Governmental Activities long-term debt of the City. At June 30, 2021, the District's outstanding debt amounted to \$17.9 million. The proceeds from the 2012 Bonds, combined with available Assessment Funds, were used to redeem the outstanding University Avenue Area Off-Street Parking Assessment District Series 2001-A and Series 2002-A Bonds. On June 28, 2016, the District defeased \$1.6 million of the 2012 Bonds using funds remaining from completion of the project. The defeased debt will be paid on September 2, 2022. Reserve and redemption funds held by the District are reported within the University Avenue Area Off-Street Parking Assessment District Custodial Fund.

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

The 126-acre Palo Alto Refuse Disposal Site (Palo Alto Landfill) was filled to capacity and stopped accepting waste in July 2011. State and federal laws and regulations require the City to construct a final cover to cap the waste, and to perform certain post-closure maintenance and monitoring activities at the site for a minimum of thirty years after closure. As of November 2015, the Palo Alto Landfill has been fully capped and subsequently converted to a pastoral park (Byxbee Park) that is open to the public. A final post-closure maintenance plan and cost estimate for the thirty-year post-closure maintenance related activities

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**NOTE 9 – LANDFILL POST-CLOSURE MAINTENANCE (Continued)**

and corrective action costs was approved by State and local regulatory agencies in 2014. As required by the State, an updated five-year post-closure maintenance plan and cost estimate was submitted and approved in FY 2021. This cost estimate is adjusted annually for inflation at a percentage provided by the State. Landfill post-closure liabilities as of June 30, 2021 are \$6.2 million, a decrease of \$0.9 million from the previous year. The City is required by State and federal laws and regulations to fund post-closure maintenance activities by pledging future revenue received from Refuse customers through rate fees.

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

**Net Position**

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

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

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

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

**Fund Balances**

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

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

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

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

As of June 30, 2021, total outstanding encumbrances and reappropriations related to governmental funds were \$10.9 million for the General Fund, \$148.0 million for the Capital Projects Fund, and \$3.2 million for the Special Revenue Funds.

**Enterprise Funds**

At June 30, 2021, enterprise funds' unrestricted net position (in thousands) were as follows:

	Water	Electric	Fiber Optics	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Total
Unrestricted										
Rate stabilization										
Supply	\$ -	\$ -	\$ -	\$ 2,766	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,766
Distribution	9,070	-	33,343	-	342	(4,988)	20,014	4,745	(14,006)	48,520
	<u>9,070</u>	<u>-</u>	<u>33,343</u>	<u>2,766</u>	<u>342</u>	<u>(4,988)</u>	<u>20,014</u>	<u>4,745</u>	<u>(14,006)</u>	<u>51,286</u>
Operations										
Supply	-	19,875	-	-	-	-	-	-	-	19,875
Distribution	20,773	10,026	-	11,982	6,578	-	-	-	-	49,359
	<u>20,773</u>	<u>29,901</u>	<u>-</u>	<u>11,982</u>	<u>6,578</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,234</u>
Emergency plant replacement	-	-	1,000	-	-	1,980	-	-	-	2,980
Electric special projects	-	46,665	-	-	-	-	-	-	-	46,665
Reappropriations	4,451	10,050	202	443	716	-	-	3,553	-	19,415
Commitments	6,181	7,142	2,186	8,709	541	18,760	1,484	831	11,469	57,303
Underground loan	-	727	-	-	-	-	-	-	-	727
Notes and loans	-	-	-	-	-	1,651	-	-	-	1,651
Landfill corrective action	-	-	-	-	-	-	681	-	-	681
Hydro stabilization reserve	-	15,400	-	-	-	-	-	-	-	15,400
Public benefit program	-	3,028	-	-	-	-	-	-	-	3,028
Reserve for LCFS	-	6,944	-	-	-	-	-	-	-	6,944
CIP reserve	10,707	880	-	3,820	3,178	-	-	-	-	18,585
Geng Road reserve	-	-	-	-	-	-	268	-	-	268
Cap & Trade	-	1,189	-	4,542	-	-	-	-	-	5,731
GASB 68 Pension	(14,143)	(34,212)	(2,238)	(14,792)	(8,368)	(21,278)	(5,896)	(3,987)	(754)	(105,668)
GASB 75 OPEB	(4,054)	(13,233)	(1)	(5,849)	(2,236)	(6,945)	(2,485)	(1,094)	(408)	(36,305)
Total	<u>\$ 32,985</u>	<u>\$ 74,481</u>	<u>\$ 34,492</u>	<u>\$ 11,621</u>	<u>\$ 751</u>	<u>\$ (10,820)</u>	<u>\$ 14,066</u>	<u>\$ 4,048</u>	<u>\$ (3,699)</u>	<u>\$ 157,925</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

**Internal Service Funds**

At June 30, 2021, Internal Service Funds unrestricted net position (in thousands) were as follows:

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total
Unrestricted net position:								
Commitments	\$ 4,608	\$ 3,236	\$ 40	\$ 325	\$ 178	\$ 11	\$ -	\$ 8,398
Future catastrophic losses	-	-	-	-	-	3,670	-	3,670
Retiree health care	-	-	-	-	-	-	2,694	2,694
GASB 68 pension	(3,235)	(11,509)	(263)	-	37	-	-	(14,970)
GASB 75 OPEB	(1,549)	(3,162)	(142)	-	-	-	-	(4,853)
Available	7,065	18,557	85	5,572	1,326	-	-	32,605
Total	<u>\$ 6,889</u>	<u>\$ 7,122</u>	<u>\$ (280)</u>	<u>\$ 5,897</u>	<u>\$ 1,541</u>	<u>\$ 3,681</u>	<u>\$ 2,694</u>	<u>\$ 27,544</u>

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

**Deficit Fund Balance and Net Position:**

At June 30, 2021, the City's Printing and Mailing Services internal service fund had a deficit net position of \$254,000. The deficit is due to the impact of Pension and OPEB liabilities and related balances. The deficit is expected to be funded by future internal service charges to other City funds.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**NOTE 11 – PENSION PLANS**

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

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

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

The Plans' provisions and benefits in effect at June 30, 2021, are summarized in the following table. Contribution rates are based on the Actuarial Valuation Report as of June 30, 2018.

	Safety Plan			
	Fire Fighters, Fire Chief Association, Police Officers,	Fire Fighters, Fire Chief Association	Police Officers, Police Management	Fire Fighters, Fire Chief Association, Police Officers,
	Prior to June 8, 2012	On or after June 8, 2012	On or after Dec. 8, 2012	On or after Jan 1, 2013
Hire Date	Prior to June 8, 2012	On or after June 8, 2012	On or after Dec. 8, 2012	On or after Jan 1, 2013
Benefit formula <sup>1</sup>	3% at 55	3% at 55	3% at 50	2.7% at 57
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50	55 <sup>1</sup>	55 <sup>1</sup>	57 <sup>1</sup>
Monthly benefit as % of eligible compensation	3%	3%	3%	2.7%
Actuarially determined contribution rate - EE	9%	9%	9%	11.25%
Actuarially determined contribution rate - ER	65.332%	65.332%	65.332%	65.332%

	Miscellaneous Plan		
	Prior to July 17, 2010	On or after July 17, 2010	On or after Jan 1, 2013
Hire Date	Prior to July 17, 2010	On or after July 17, 2010	On or after Jan 1, 2013
Benefit formula	2.7% at 55 <sup>2</sup>	2% at 60 <sup>2</sup>	2% at 62 <sup>3</sup>
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	55 <sup>2</sup>	60 <sup>2</sup>	62 <sup>3</sup>
Monthly benefit as % of eligible compensation <sup>2</sup>	2.70%	2.0% - 2.418%	2%
Actuarially determined contribution rate - EE	8%	7%	6.25%
Actuarially determined contribution rate - ER	38.367%	38.367%	38.367%

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

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

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Employees Covered** – Based on the Actuarial Valuation Report as of June 30, 2020, the most recent information available, the following employees were covered by the benefits terms for each Plan:

	Miscellaneous Plan	Safety Plan
Inactive employees or beneficiaries currently receiving benefits	1,223	435
Inactive employees entitled to but not yet receiving benefits	835	104
Active employees	777	174
Total	2,835	713

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

In April 2017, the City established a Section 115 irrevocable trust with the Public Agency Retirement Services (PARS). The Council approved an initial deposit of \$2.1 million in General Fund proceeds into the General Fund subaccount of the City’s PARS Trust Account. The Trust Account allows more control and flexibility in investment allocations compared to City’s portfolio which is restricted by State regulations to fixed income instruments. The City proactively contributes to the Section 115 irrevocable trust amounts reflective of what retirement costs would be if the normal cost of contributions was budgeted at a 6.2% discount rate. During the year, the City contributed \$5.0 million to the PARS Trust. As of June 30, 2021, the City reported the account balance of \$37.1 million as restricted investments in the General Benefits Internal Service Fund.

**(b) Net Pension Liability**

The City’s net pension liability for each plan is measured as the total pension liability, less each plan’s fiduciary net position. Net pension liability is measured as of June 30, 2020 (measurement date), using the Actuarial Valuation Report as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

	<u>Miscellaneous and Safety Plans</u>
Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality <sup>1</sup>	Derived using CalPERS membership data for all funds.
Post Retirement Benefit Increase	The lessor of contract COLA or 2.50% until Purchasing Power Protection Allowance Floor on purchasing power applies, 2.50% thereafter.

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

All other actuarial assumptions used in the June 30, 2019 actuarial valuation were based on the 2017 CalPERS Experience Study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. Further details of the 2017 CalPERS Experience Study can be found on the CalPERS website under Forms and Publications.

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated and adjusted to account for assumed administrative expenses.

The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The long-term expected real rate of return by asset class and the target allocation adopted by the CalPERS Board effective on July 1, 2019, are as follows:

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

	Total Pension Liability	Plan Net Position	Net Pension Liability
<b><u>Miscellaneous Plan:</u></b>			
Balances calculated at July 1, 2020	\$ 849,004	\$ 573,840	\$ 275,164
Changes for the year:			
Service cost	14,267	-	14,267
Interest on total pension liability	59,995	-	59,995
Differences between expected and actual experiences	4,850	-	4,850
Contributions from employer	-	28,889	(28,889)
Contributions from employees	-	7,189	(7,189)
Net investment income	-	28,735	(28,735)
Benefit payments, including refunds of employee contributions	(43,781)	(43,781)	-
Administrative expense	-	(809)	809
Net changes	<u>35,331</u>	<u>20,223</u>	<u>15,108</u>
Balances reported at June 30, 2021	<u>884,335</u>	<u>594,063</u>	<u>290,272</u>
<b><u>Safety Plan:</u></b>			
Balances calculated at July 1, 2020	\$ 456,817	\$ 289,028	\$ 167,789
Changes for the year:			
Service cost	7,898	-	7,898
Interest on total pension liability	32,469	-	32,469
Differences between expected and actual experiences	6,314	-	6,314
Contributions from employer	-	14,297	(14,297)
Contributions from employees	-	3,459	(3,459)
Net investment income	-	14,310	(14,310)
Benefit payments, including refunds of employee contributions	(25,948)	(25,948)	-
Administrative expense	-	(407)	407
Net changes	<u>20,733</u>	<u>5,711</u>	<u>15,022</u>
Balances reported at June 30, 2021	<u>477,550</u>	<u>294,739</u>	<u>182,811</u>
Total	<u>\$ 1,361,885</u>	<u>\$ 888,802</u>	<u>\$ 473,083</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
<b>Miscellaneous Plan:</b>			
Plan's Net Pension Liability	\$ 401,532	\$ 290,272	\$ 197,747
<b>Safety Plan:</b>			
Plan's Net Pension Liability	\$ 244,169	\$ 182,811	\$ 132,093

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

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

For the year ended June 30, 2021, the City recognized a pension expense of \$34.7 million and \$25.7 million for the Miscellaneous and Safety Plan, respectively, for a total of \$60.4 million. At June 30, 2021, the City reported pension related deferred outflows of resources for the Miscellaneous and Safety Plans from the following sources (in thousands):

	Deferred Outflows of Resources
<b><u>Miscellaneous Plan:</u></b>	
Pension contributions subsequent to measurement date	\$ 32,782
Difference between expected and actual experience	5,051
Net difference between projected and actual earnings on plan investments	3,887
Balance reported at June 30, 2021	41,720
<b><u>Safety Plan:</u></b>	
Pension contributions subsequent to measurement date	14,796
Difference between expected and actual experience	5,157
Net difference between projected and actual earnings on plan investments	1,977
Balance reported at June 30, 2021	21,930
Total, Miscellaneous and Safety Plans	\$ 63,650

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

The \$47.6 million reported as deferred outflows of resources relates to contributions paid by the City from July 1, 2020 through June 30, 2021 which is subsequent to the City's measurement date of June 30, 2020 for both the Miscellaneous and Safety Plans. This amount will be recognized as a reduction of the net pension liability in the year ended June 30, 2022.

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

Year Ended June 30,	Miscellaneous Plan	Safety Plan	Total
2022	\$ 975	\$ 1,931	\$ 2,906
2023	2,732	2,505	5,237
2024	2,849	1,494	4,343
2025	2,382	1,204	3,586
	<u>\$ 8,938</u>	<u>\$ 7,134</u>	<u>\$ 16,072</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

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

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

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

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

<sup>4</sup> For the year ended June 20, 2021, City pays \$840-\$871 for employee, \$1,680-1,742 for employee +1, and \$2,180-\$2,260 for family.

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

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

**Employees Covered** – Employees covered by the benefit terms as of June 30, 2020, the most recent information available, are as follows:

Inactive employees or beneficiaries currently receiving benefits	1,011
Inactive employees entitled to but not yet receiving benefits	75
Active employees	897
Total	<u>1,983</u>

**Contributions** – The City's OPEB funding policy is to contribute 100 percent or more of the actuarially determined contribution each year pursuant to City Council Resolution. For the year ended June 30, 2021, the City's contributions totaled \$14.6 million.

**(b) Net OPEB Liability**

The City's net OPEB liability is measured as the total OPEB liability, less the OPEB plan's fiduciary net position. The net OPEB liability is measured as of June 30, 2020, using an annual actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures. A summary of principal assumptions and methods used to determine the net OPEB liability is shown below.

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age, level percentage of payroll
Actuarial Assumptions:	
Discount Rate	6.75%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	2017 CalPERS Experience Study for the period from 1997 to 2015
Medical Trend	Non-Medicare - 7.25% for 2021, decreasing to an ultimate rate of 4.0% in 2076 Medicare - 6.3% for 2021, decreasing to an ultimate rate of 4.0% in 2076
Disability, Termination, Retirement Mortality	CalPERS 1997-2015 Experience Study 2017 CalPERS Experience Study for the period from 1997 to 2015
Mortality Improvement	Post-retirement mortality projected fully generational with Society of Actuaries Scale MP-2019
Increase to Group 3 Flat Dollar Caps	1/2 of Medical Trend, not less than assumed inflation (2.75%)
Healthcare Participation for Future ACA Excise Tax	Future retirees: 95-98%, based on Plan experience None



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Change of Assumptions** – During measurement period 2020, actuarial assumptions for ACA Exercise Tax was changed from 2% load on cash subsidy to none.

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

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

Asset Class	Current Target Allocation	Expected Real Rate of Return
Global Equity	59.0%	4.82%
Fixed Income	25.0	1.47
TIPS	5.0	1.29
Commodities	3.0	0.84
REITS	8.0	3.76
Assumed long-term rate of inflation of 2.75%		

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

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

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2020	\$ 245,509	\$ 118,479	\$ 127,030
Changes during the measurement period:			
Service cost	6,366	-	6,366
Interest on the total OPEB liability	16,572	-	16,572
Changes in assumptions	(4,426)	-	(4,426)
Contributions - employer	-	16,475	(16,475)
Investment income	-	4,327	(4,327)
Administrative expenses	-	(58)	58
Benefit payments	(12,728)	(12,728)	-
Net changes	5,784	8,016	(2,232)
Balance at June 30, 2021	\$ 251,293	\$ 126,495	\$ 124,798

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

Discount Rate -1% (5.75%)	Current Discount Rate (6.75%)	Discount Rate +1% (7.75%)
\$ 157,131	\$ 124,798	\$ 98,126

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

Healthcare Trend Rate - 1%	Healthcare Trend Current Rate	Healthcare Trend Rate + 1%
\$ 94,719	\$ 124,798	\$ 161,763

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

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

For the fiscal year ended June 30, 2021, the City recognized an OPEB expense of \$10.0 million for the OPEB plan. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 14,592	\$ -
Differences between expected and actual experience	-	19,031
Changes in assumptions	4,491	3,621
Net differences between projected and actual earnings on plan investments	2,200	-
Total	<u>\$ 21,283</u>	<u>\$ 22,652</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

The \$14.6 million reported as deferred outflows of resources relates to contributions made by the City from July 1, 2020 through June 30, 2021, which is subsequent to the City's measurement date of June 30, 2020. This amount will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2022.

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

<u>Fiscal Year Ending June 30,</u>	
2022	\$ (4,964)
2023	(4,336)
2024	(4,125)
2025	(2,135)
2026	(401)
Total	<u>\$ (15,961)</u>

**NOTE 13 – DEFERRED COMPENSATION PLAN**

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

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

**NOTE 14 – RISK MANAGEMENT**

**Coverage**

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

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

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

During the year ended June 30, 2021, the City paid \$2.1 million to ACCEL for current year coverage.

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

**Claims Liability**

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

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

	Year Ended June 30	
	2021	2020
Beginning balance	\$ 29,713	\$ 28,365
Claims expense, including claims incurred but not reported (IBNR)	11,197	6,914
Claims paid	(8,379)	(5,566)
Ending balance	<u>\$ 32,531</u>	<u>\$ 29,713</u>
Current portion	<u>\$ 6,811</u>	<u>\$ 6,198</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

The City also recorded claims payable of \$12.6 million on its governmental activities' financial statements for a class action lawsuit filed against the City that challenged the City's gas and electric rates. See Note 16.

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

**NOTE 15 – JOINT VENTURES**

**General**

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

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

**Northern California Power Agency**

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

During the year ended June 30, 2021, the City incurred expenses totaling \$92.1 million for purchased power and assessments earned by NCPA.

The City's interest in NCPA projects and reserves, as computed by NCPA, was \$8.1 million at June 30, 2021. This amount represents the City's portion of funds, which resulted from the settlement with third parties of issues with financial consequences and reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employees' post-retirement

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

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

**Calaveras Hydroelectric Project**

In July 1981, NCPA agreed with Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments to NCPA began in February 1990 when the project was declared substantially complete and power was delivered to the participants. Under its power purchase agreement with NCPA, the City is obligated to pay 22.9 percent of this Project's debt service and operating costs. At June 30, 2021, the book value of this Project's plant, equipment and other assets was \$303.8 million, while its long-term debt totaled \$255.8 million and other liabilities totaled \$44.5 million. The City's share of the Project's long-term debt amounted to \$58.6 million at that date.

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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

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

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

**NOTE 16 – COMMITMENTS AND CONTINGENCIES**

**Palo Alto Unified School District** – The City leased 27 acres of the former Cubberley School site and twelve extended day care sites from Palo Alto Unified School District (PAUSD) through December 31, 2019. The City and the PAUSD reached new agreements for the Cubberley School site through December 31, 2024, and the twelve extended day care sites through June 30, 2022. Under the new Cubberley lease, the City leases approximately 65,046 rentable square feet of building area and 15.94 acres of outdoor recreational area. The City has the right to reduce the leased premises by surrendering the Junior Museum and Zoo (JMZ) Building and/or the Building S. The City intends to surrender the JMZ Building after the completion of the new museum building that is not located on the property.

The total lease expenditures for the year ended June 30, 2021 amounted to \$4.1 million. Future minimum annual lease payments are as follows (in thousands):

Year Ending	
June 30	Payment
2022	\$ 3,406
2023	2,568
2024	2,568
2025	1,284
	<u>\$ 9,826</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**GreenWaste of Palo Alto** – GreenWaste of Palo Alto is the City’s contractor for waste collection, transportation, and processing services. The agreement expires June 30, 2026. The base compensation for GreenWaste is adjusted annually based on CPI indicators stipulated in the contract. In fiscal year 2021 payments to GreenWaste were \$11.0 million.

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

**Sunnyvale Materials Recovery and Transfer Station (SMaRT Station)** – On September 30, 1991, as amended on June 9, 1992, the City, the City of Sunnyvale, and the City of Mountain View, entered into a Memorandum of Understanding (MOU) to participate in the construction and operation of the SMaRT Station, which recovers recyclable materials from the municipal solid waste delivered from participating cities. Per the MOU, the City has a capital share of 21.3 percent of this facility and reimburses its proportionate capital share of design, construction and operation costs to Sunnyvale.

In fiscal year 2008, the members agreed to finance an Equipment Replacement Project from existing reserves and proceeds from the Solid Waste Revenue Bond, Series 2007. The City has committed to repay 27.8 percent of the remaining debt service on the Bonds. During the year ended June 30, 2021, the City made the last debt service payment of \$0.2 million and the City’s obligation to pay related debt service payments is completed. The MOU is expiring on December 31, 2021.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**UTILITIES ENERGY RESOURCE MANAGEMENT**

***Electric Power Supply Purchase Agreements*** – The City has numerous power purchase agreements with power producers to purchase capacity and energy to supply a portion of its load requirements. As of June 30, 2021, the approximate minimum obligations for the contracts, assuming the energy is delivered over the next four years, are as follows:

Fiscal Year	Projected Obligation
2022	\$63.66 million
2023	\$57.61 million
2024	\$55.60 million
2025	\$52.02 million
2026	\$52.63 million

***Contractual Commitments beyond 2022 (Electricity)*** – Several of the City’s purchase power and transmission contracts extend beyond the five-year summary presented above. These contracts expire between 2026 and 2051 and provide for power under various terms and conditions. The City also has a new solar power purchase agreement that is schedule to start in January 2023. The City estimates that its annual minimum commitments under all of its contracts, assuming the energy is delivered, ranges between \$62.06 million in 2025 and \$67.13 million in 2034. The City’s largest single purchase power source is the Western Base Resource contract, whereby the City receives 12.31 percent of the amount of energy made available by Western, after meeting Central Valley Project use requirements, in any given year at a 12.31 percent share of their revenue requirement. The Western contract expires on December 31, 2024. The City has the option to extend the Western contract for an additional 30-year period beyond 2024, although at a slightly lower share of the total energy output and revenue requirement (12.06 percent instead of 12.31 percent).

***Gas Transmission and Local Transportation Rates*** – The City relies on Pacific Gas and Electric Company’s (PG&E) natural gas pipeline infrastructure, including both high-pressured transmission and medium-pressure local transportation, to move gas from the California border to the City’s distribution system. Rates are determined through proceedings at the California Public Utilities Commission. The gas transmission and local transportation rates increased by 26% and 8%, respectively, from fiscal year 2020 to fiscal year 2021. The gas transmission and local transportation rates are expected to increase by 4% and 3%, respectively, in fiscal year 2022.

***San Francisco Public Utilities Commission*** – The City purchases water from the San Francisco Public Utilities Commission (SFPUC) under a Water Supply Agreement (WSA) terminating in 2034. The City’s wholesale water rate under this contract is determined by a ratemaking process under the authority of the SFPUC, with contractual limitations on the types of costs that may be allocated to wholesale water purchasers like the City. The WSA contains certain restrictions regarding water purchases from other water suppliers, though those restrictions do not apply to recycled water or emergency water supplies. The City’s cost of water under this contract is projected to remain flat through 2022.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Litigation**

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

A class action lawsuit was filed against the City in October 2016 that challenged the City's gas and electric rates under Proposition 26. On June 24, 2021, a trial court entered judgment partially against the City and ordered the City to pay \$12.6 million to a common fund to refund gas rate payers and for payment of incurred litigation costs. The City and the plaintiffs have appealed the trial court's judgment. Payment of refunds due to gas rate payers under the trial court judgment are stayed pending a decision by the Court of appeal (expected in late 2022/early 2023) on the parties' respective appeals. While the ultimate outcome of the claim is uncertain, the City has recorded a claims payable equal to the trial court judgment. This liability is not due and payable at June 30, 2021 and the City recorded a non-current claims payable of \$12.6 million on its governmental activities' financial statements for this lawsuit. In 2022, the City has set aside funding in the General Fund for the potential financial impacts.

A personal injury lawsuit was filed against the City in August 2018. Plaintiff, a bicyclist, alleges that the City created a dangerous condition of public property that caused him to suffer catastrophic injuries. The City Attorney is of the opinion that a loss is reasonably possible but cannot be reasonably estimated at this time.

**Grant Programs**

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

**Uncertainties**

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak and any related adverse public health developments have adversely affected workforces, customers, economies, and financial markets globally. It has also disrupted the normal operations of many governments, including the City. The City expects this outbreak to impact the City's operations for future reporting periods. It is not possible for the City to predict the duration or magnitude of the adverse results of the outbreak and its effects on the City's operations.

**Note 17 – SUBSEQUENT EVENT**

On July 12, 2021, the SWRCB and the City executed a direct loan agreement for an award up to \$17.5 million to finance the rehabilitate and upgrade the RWQCP primary sedimentation tanks and ancillary systems. The loan interest rate is 0.9% and has a final maturity on February 15, 2053.

**CITY OF PALO ALTO**  
**Required Supplementary Information (Unaudited)**  
**Last 7 Fiscal Years\***

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

Fiscal year	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15
Measurement Period	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
<b>Total pension liability</b>							
Service cost	\$ 14,267	\$ 15,045	\$ 14,724	\$ 14,423	\$ 12,582	\$ 12,183	\$ 12,442
Interest	59,995	57,523	54,903	52,831	51,531	49,345	46,963
Changes of assumptions	-	-	(5,673)	42,239	-	(11,552)	-
Difference between expected and actual experience	4,850	6,230	4,271	(6,378)	757	3,507	-
Benefit payments, including refunds of employee contributions	(43,781)	(41,124)	(37,624)	(36,405)	(34,825)	(32,980)	(31,781)
<b>Net change in total pension liability</b>	<b>35,331</b>	<b>37,674</b>	<b>30,601</b>	<b>66,710</b>	<b>30,045</b>	<b>20,503</b>	<b>27,624</b>
<b>Total pension liability - beginning</b>	<b>849,004</b>	<b>811,330</b>	<b>780,729</b>	<b>714,019</b>	<b>683,974</b>	<b>663,471</b>	<b>635,847</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 884,335</b>	<b>\$ 849,004</b>	<b>\$ 811,330</b>	<b>\$ 780,729</b>	<b>\$ 714,019</b>	<b>\$ 683,974</b>	<b>\$ 663,471</b>
<b>Plan fiduciary net position</b>							
Contributions - employer	\$ 28,889	\$ 25,423	\$ 23,342	\$ 20,638	\$ 18,840	\$ 18,610	\$ 17,400
Contributions - employee	7,189	6,939	6,654	6,314	5,812	5,730	6,345
Net investment income	28,735	36,322	43,690	53,259	2,464	10,597	70,989
Benefit payments, including refunds of employee contributions	(43,781)	(41,124)	(37,624)	(36,405)	(34,825)	(32,980)	(31,781)
Administrative expense	(809)	(390)	(799)	(694)	(291)	(538)	-
Other non-investment income (expenses)	-	1	(1,518)	30	-	-	-
<b>Net change in fiduciary net position</b>	<b>20,223</b>	<b>27,171</b>	<b>33,745</b>	<b>43,142</b>	<b>(8,000)</b>	<b>1,419</b>	<b>62,953</b>
<b>Plan fiduciary net position - beginning</b>	<b>573,840</b>	<b>546,669</b>	<b>512,924</b>	<b>469,782</b>	<b>477,782</b>	<b>476,363</b>	<b>413,410</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 594,063</b>	<b>\$ 573,840</b>	<b>\$ 546,669</b>	<b>\$ 512,924</b>	<b>\$ 469,782</b>	<b>\$ 477,782</b>	<b>\$ 476,363</b>
<b>Plan net pension liability/(asset) - Ending (a) - (b)</b>	<b>\$ 290,272</b>	<b>\$ 275,164</b>	<b>\$ 264,661</b>	<b>\$ 267,805</b>	<b>\$ 244,237</b>	<b>\$ 206,192</b>	<b>\$ 187,108</b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<b>67.18%</b>	<b>67.59%</b>	<b>67.38%</b>	<b>65.70%</b>	<b>65.79%</b>	<b>69.85%</b>	<b>71.80%</b>
<b>Covered payroll</b>	<b>\$ 81,017</b>	<b>\$ 82,573</b>	<b>\$ 80,634</b>	<b>\$ 77,606</b>	<b>\$ 73,722</b>	<b>\$ 69,837</b>	<b>\$ 66,373</b>
<b>Plan net pension liability/(asset) as a percentage of covered payroll</b>	<b>358.29%</b>	<b>333.24%</b>	<b>328.23%</b>	<b>345.08%</b>	<b>331.29%</b>	<b>295.25%</b>	<b>281.90%</b>

**Notes to Schedule:**

**Benefit changes** - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2019 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit (a.k.a. Golden Handshake).

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

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

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

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

<b>Fiscal Year</b>	<b>2020-21</b>	<b>2019-20</b>	<b>2018-19</b>	<b>2017-18</b>	<b>2016-17</b>	<b>2015-16</b>	<b>2014-15</b>	<b>2013-14</b>
Contractually required contribution (actuarially determined)	\$ 32,782	\$ 28,889	\$ 25,423	\$ 23,342	\$ 20,638	\$ 18,840	\$ 18,610	\$ 17,400
Actual contribution	(32,782)	(28,889)	(25,423)	(23,342)	(20,638)	(18,840)	(18,610)	(17,400)
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 87,177	\$ 81,017	\$ 82,573	\$ 80,634	\$ 77,606	\$ 73,722	\$ 69,837	\$ 66,373
Contributions as percentage of covered payroll	37.60%	35.66%	30.79%	28.95%	26.59%	25.56%	26.65%	26.22%

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2021 contribution rates are as follows:

ADC for fiscal year	June 30, 2021
Actuarial valuation date	June 30, 2018
Actuarial cost method	Entry-Age Normal Cost Method
Asset valuation method	Actuarial value of assets
Inflation	2.50%
Salary increases	Varies by entry age and services
Payroll growth	2.75%
Investment rate of return	7.00%, net of pension plan investment and administrative expenses, includes inflation.
Retirement age	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period 1997 to 2015.
Mortality	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and post-retirement mortality rates includes 15 years of projected mortality improvements using 90% of Scale MP-2016 published by the Society of Actuaries.

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

**CITY OF PALO ALTO**  
**Required Supplementary Information (Unaudited)**  
**Last 7 Fiscal Years\***

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

Fiscal year	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15
Measurement Period	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
<b>Total pension liability</b>							
Service cost	\$ 7,898	\$ 7,259	\$ 7,168	\$ 6,584	\$ 5,916	\$ 5,959	\$ 6,221
Interest	32,469	31,066	29,871	28,272	27,816	27,047	26,113
Changes of assumptions	-	-	(1,374)	22,566	-	(6,327)	-
Difference between expected and actual experience	6,314	3,841	11,604	(2,790)	(1,516)	75	-
Benefit payments, including refunds of employee contributions	(25,948)	(24,757)	(23,636)	(22,413)	(21,669)	(21,148)	(19,985)
<b>Net change in total pension liability</b>	<b>20,733</b>	<b>17,409</b>	<b>23,633</b>	<b>32,219</b>	<b>10,547</b>	<b>5,606</b>	<b>12,349</b>
<b>Total pension liability - beginning</b>	<b>456,817</b>	<b>439,408</b>	<b>415,775</b>	<b>383,556</b>	<b>373,009</b>	<b>367,403</b>	<b>355,054</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 477,550</b>	<b>\$ 456,817</b>	<b>\$ 439,408</b>	<b>\$ 415,775</b>	<b>\$ 383,556</b>	<b>\$ 373,009</b>	<b>\$ 367,403</b>
<b>Plan fiduciary net position</b>							
Contributions - employer	\$ 14,297	\$ 12,370	\$ 11,030	\$ 10,220	\$ 9,403	\$ 8,617	\$ 7,616
Contributions - employee	3,459	3,225	2,799	2,475	2,059	2,047	2,762
Net investment income	14,310	18,217	22,724	28,112	1,259	5,774	40,033
Benefit payments, including refunds of employee contributions	(25,948)	(24,757)	(23,636)	(22,413)	(21,669)	(21,148)	(19,985)
Administrative expense	(407)	(201)	(418)	(370)	(157)	(290)	-
Other non-investment income (expenses)	-	1	(794)	(30)	-	-	-
<b>Net change in fiduciary net position</b>	<b>5,711</b>	<b>8,855</b>	<b>11,705</b>	<b>17,994</b>	<b>(9,105)</b>	<b>(5,000)</b>	<b>30,426</b>
<b>Plan fiduciary net position - beginning</b>	<b>289,028</b>	<b>280,173</b>	<b>268,468</b>	<b>250,474</b>	<b>259,579</b>	<b>264,579</b>	<b>234,153</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 294,739</b>	<b>\$ 289,028</b>	<b>\$ 280,173</b>	<b>\$ 268,468</b>	<b>\$ 250,474</b>	<b>\$ 259,579</b>	<b>\$ 264,579</b>
<b>Plan net pension liability/(asset) - Ending (a) - (b)</b>	<b>\$ 182,811</b>	<b>\$ 167,789</b>	<b>\$ 159,235</b>	<b>\$ 147,307</b>	<b>\$ 133,082</b>	<b>\$ 113,430</b>	<b>\$ 102,824</b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<b>61.72%</b>	<b>63.27%</b>	<b>63.76%</b>	<b>64.57%</b>	<b>65.30%</b>	<b>69.59%</b>	<b>72.01%</b>
<b>Covered payroll</b>	<b>\$ 26,189</b>	<b>\$ 24,263</b>	<b>\$ 24,131</b>	<b>\$ 21,906</b>	<b>\$ 21,822</b>	<b>\$ 21,912</b>	<b>\$ 21,896</b>
<b>Plan net pension liability/(asset) as a percentage of covered payroll</b>	<b>698.04%</b>	<b>691.54%</b>	<b>659.88%</b>	<b>672.45%</b>	<b>609.85%</b>	<b>517.66%</b>	<b>469.60%</b>

**Notes to Schedule:**

**Benefit changes** - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2019 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit (a.k.a. Golden Handshake).

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

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

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

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

<b>Fiscal Year</b>	<b>2020-21</b>	<b>2019-20</b>	<b>2018-19</b>	<b>2017-18</b>	<b>2016-17</b>	<b>2015-16</b>	<b>2014-15</b>	<b>2013-14</b>
Contractually required contribution (actuarially determined)	\$ 14,796	\$ 14,297	\$ 12,370	\$ 11,030	\$ 10,220	\$ 9,403	\$ 8,617	\$ 7,616
Actual contribution	(14,796)	(14,297)	(12,370)	(11,030)	(10,220)	(9,403)	(8,617)	(7,616)
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 25,615	\$ 26,189	\$ 24,263	\$ 24,131	\$ 21,906	\$ 21,822	\$ 21,912	\$ 21,896
Contributions as percentage of covered payroll	57.76%	54.59%	50.98%	45.71%	46.65%	43.09%	39.33%	34.78%

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2021 contribution rates are as follows:

ADC for fiscal year	June 30, 2021
Actuarial valuation date	June 30, 2018
Actuarial cost method	Entry-Age Normal Cost Method
Asset valuation method	Actuarial value of assets
Inflation	2.50%
Salary increases	Varies by entry age and services
Payroll growth	2.75%
Investment rate of return	7.00%, net of pension plan investment and administrative expenses, includes inflation.
Retirement age	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period 1997 to 2015.
Mortality	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and post-retirement mortality rates includes 15 years of projected mortality improvements using 90% of Scale MP-2016 published by the Society of Actuaries.

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

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

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

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

**Notes to Schedule:**

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

**Changes in assumptions** - During measurement period 2020, demographic assumptions were change in accordance to the 2017 CalPERS Experience Study while mortality improvement scale was updated to Scale MP-2019.

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

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

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

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

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2021 contribution rates are as follows:

ADC for fiscal year	June 30, 2021
Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry-Age, level percentage of payroll
Amortization method	Level percent of pay
Amortization period	24-year fixed period for 2020/21
Asset valuation method	Market value, no smoothing
Inflation	2.75%
Payroll growth	3.00%
Investment rate of return	6.75%
Medical trend	Non-Medicare - 7.25% for 2021, decreasing to an ultimate rate of 4.0% in 2076 Medicare - 6.3% for 2021, decreasing to an ultimate rate of 4.0% in 2076
Mortality	CalPERS 1997-2015 Experience Study
Mortality Improvement	Post-retirement mortality projected fully generational with Society of Actuaries Scale MP-2019

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



**CITY OF PALO ALTO**  
**Non-major Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2021**  
**(Amounts in thousands)**

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total Other Governmental Funds
<b>ASSETS:</b>				
Cash and investments available for operations	\$ 60,487	\$ 3,728	\$ 2,543	\$ 66,758
Receivables, net:				
Accounts and intergovernmental	517	2	-	519
Interest	357	19	13	389
Notes and loan receivable	52,851	-	-	52,851
Restricted cash and investments with fiscal agents	-	4,655	-	4,655
Total assets	<u>\$ 114,212</u>	<u>\$ 8,404</u>	<u>\$ 2,556</u>	<u>\$ 125,172</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
Liabilities:				
Accounts payable and accruals	\$ 495	\$ -	\$ -	\$ 495
Accrued salaries and benefits	34	-	-	34
Due to other funds	341	-	-	341
Total liabilities	<u>870</u>	<u>-</u>	<u>-</u>	<u>870</u>
Fund balances:				
Nonspendable				
Eyerly family	-	-	2,556	2,556
Restricted for:				
Transportation mitigation	12,512	-	-	12,512
Federal revenue	5,293	-	-	5,293
Street improvement	28	-	-	28
Local law enforcement	756	-	-	756
Public benefit	18,282	-	-	18,282
Debt service	-	8,404	-	8,404
Committed for:				
Developer impact fee	13,300	-	-	13,300
Housing In-Lieu	58,883	-	-	58,883
Special districts	3,186	-	-	3,186
Downtown business	50	-	-	50
Assigned for:				
Unrealized gain on investment	1,052	-	-	1,052
Total fund balances	<u>113,342</u>	<u>8,404</u>	<u>2,556</u>	<u>124,302</u>
Total liabilities and fund balances	<u>\$ 114,212</u>	<u>\$ 8,404</u>	<u>\$ 2,556</u>	<u>\$ 125,172</u>

**CITY OF PALO ALTO**  
**Non-major Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total Other Governmental Funds
REVENUES:				
Property tax	\$ -	\$ 4,329	\$ -	\$ 4,329
Special assessments	5	-	-	5
Other taxes and fines	2,816	-	-	2,816
Intergovernmental	1,337	-	-	1,337
Licenses, permits and fees:				
University Avenue Parking	83	-	-	83
California Avenue Parking	22	-	-	22
Other licenses, permits and fees	2,056	-	-	2,056
Investment earnings	169	(10)	16	175
Housing In-Lieu - residential	5,804	-	-	5,804
Other revenue	154	-	-	154
Total revenues	12,446	4,319	16	16,781
EXPENDITURES:				
Current:				
Administrative Services	261	-	-	261
Public Works	1,427	-	-	1,427
Planning and Development Services	1,285	-	-	1,285
Office of Transportation	1,437	-	-	1,437
Police	36	-	-	36
Community Services	236	-	-	236
Non-Departmental	255	-	-	255
Debt service:				
Principal retirement	-	2,595	-	2,595
Interest and fiscal charges	-	6,147	-	6,147
Total expenditures	4,937	8,742	-	13,679
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	7,509	(4,423)	16	3,102
OTHER FINANCING SOURCES (USES):				
Transfers in	570	2,910	-	3,480
Transfers out	(9,564)	-	-	(9,564)
Total other financing sources (uses)	(8,994)	8,939	-	(55)
Change in fund balances	(1,485)	4,516	16	3,047
FUND BALANCES, BEGINNING OF YEAR	114,827	3,888	2,540	121,255
FUND BALANCES, END OF YEAR	\$ 113,342	\$ 8,404	\$ 2,556	\$ 124,302

## **NON-MAJOR GOVERNMENTAL FUNDS**

### **SPECIAL REVENUE FUNDS**

#### **Street Improvement**

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

#### **Federal Revenue**

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

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

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

#### **Special Districts**

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

#### **Transportation Mitigation**

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

#### **Local Law Enforcement**

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

#### **Asset Seizure**

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

#### **Developer Impact Fee**

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

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

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

#### **Public Benefit**

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

**CITY OF PALO ALTO**  
**Non-major Special Revenue Funds**  
**Combining Balance Sheet**  
**June 30, 2021**  
**(Amounts in thousands)**

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
<b>ASSETS:</b>				
Cash and investments available for operations	\$ -	\$ -	\$ 11,573	\$ 3,546
Receivables, net:				
Accounts and intergovernmental	234	283	-	-
Interest	-	-	92	27
Notes and loan receivable	-	5,351	47,500	-
Total assets	<u>\$ 234</u>	<u>\$ 5,634</u>	<u>\$ 59,165</u>	<u>\$ 3,573</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
Liabilities:				
Accounts payable and accruals	\$ -	\$ 203	\$ 10	\$ 282
Accrued salaries and benefits	-	3	1	26
Due to other funds	206	135	-	-
Total liabilities	<u>206</u>	<u>341</u>	<u>11</u>	<u>308</u>
Fund balances:				
Restricted				
Transportation mitigation	-	-	-	-
Federal revenue	-	5,293	-	-
Street improvement	28	-	-	-
Local law enforcement	-	-	-	-
Public benefit	-	-	-	-
Committed				
Developer impact fee	-	-	-	-
Housing In-Lieu	-	-	58,883	-
Special districts	-	-	-	3,186
Downtown business	-	-	-	-
Assigned				
Unrealized gains on investments	-	-	271	79
Total fund balances	<u>28</u>	<u>5,293</u>	<u>59,154</u>	<u>3,265</u>
Total liabilities and fund balances	<u>\$ 234</u>	<u>\$ 5,634</u>	<u>\$ 59,165</u>	<u>\$ 3,573</u>

Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total Special Revenue Funds
\$ 12,635	\$ 760	\$ 3	\$ 13,446	\$ 51	\$ 18,473	\$ 60,487
-	-	-	-	-	-	517
64	3	-	73	-	98	357
-	-	-	-	-	-	52,851
<u>\$ 12,699</u>	<u>\$ 763</u>	<u>\$ 3</u>	<u>\$ 13,519</u>	<u>\$ 51</u>	<u>\$ 18,571</u>	<u>\$ 114,212</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 495
-	-	-	4	-	-	34
-	-	-	-	-	-	341
-	-	-	4	-	-	870
12,512	-	-	-	-	-	12,512
-	-	-	-	-	-	5,293
-	-	-	-	-	-	28
-	753	3	-	-	-	756
-	-	-	-	-	18,282	18,282
-	-	-	13,300	-	-	13,300
-	-	-	-	-	-	58,883
-	-	-	-	-	-	3,186
-	-	-	-	50	-	50
187	10	-	215	1	289	1,052
<u>12,699</u>	<u>763</u>	<u>3</u>	<u>13,515</u>	<u>51</u>	<u>18,571</u>	<u>113,342</u>
<u>\$ 12,699</u>	<u>\$ 763</u>	<u>\$ 3</u>	<u>\$ 13,519</u>	<u>\$ 51</u>	<u>\$ 18,571</u>	<u>\$ 114,212</u>

**CITY OF PALO ALTO**  
**Non-major Special Revenue Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
<b>REVENUES:</b>				
Special assessments	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	2,793	-	-	23
Intergovernmental	-	1,172	-	-
Licenses, permits and fees:				
University Avenue Parking	-	-	-	83
California Avenue Parking	-	-	-	22
Other licenses, permits and fees	-	-	-	49
Investment earnings	(3)	-	9	1
Housing In-Lieu - residential	-	-	5,804	-
Other revenue	-	-	85	29
	<u>2,790</u>	<u>1,172</u>	<u>5,898</u>	<u>207</u>
Total revenues				
<b>EXPENDITURES:</b>				
Current:				
Administrative Services	-	-	-	261
Public Works	-	-	-	1,427
Planning and Development Services	-	1,100	179	6
Office of Transportation	-	-	-	1,437
Police	-	-	-	-
Community Services	-	-	-	32
Non-Departmental	-	-	75	160
	<u>-</u>	<u>1,100</u>	<u>254</u>	<u>3,323</u>
Total expenditures				
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>2,790</u>	<u>72</u>	<u>5,644</u>	<u>(3,116)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	400
Transfers out	(2,837)	-	-	(838)
	<u>(2,837)</u>	<u>-</u>	<u>-</u>	<u>(438)</u>
Total other financing sources (uses)				
Change in fund balances	(47)	72	5,644	(3,554)
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>75</u>	<u>5,221</u>	<u>53,510</u>	<u>6,819</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 28</u>	<u>\$ 5,293</u>	<u>\$ 59,154</u>	<u>\$ 3,265</u>

Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ 5	\$ -	\$ 5
-	-	-	-	-	-	2,816
-	165	-	-	-	-	1,337
-	-	-	-	-	-	83
-	-	-	-	-	-	22
429	-	-	1,578	-	-	2,056
66	7	-	14	-	75	169
-	-	-	-	-	-	5,804
-	-	-	40	-	-	154
495	172	-	1,632	5	75	12,446
-	-	-	-	-	-	261
-	-	-	-	-	-	1,427
-	-	-	-	-	-	1,285
-	-	-	-	-	-	1,437
-	36	-	-	-	-	36
-	-	-	204	-	-	236
-	-	-	-	20	-	255
-	36	-	204	20	-	4,937
495	136	-	1,428	(15)	75	7,509
-	-	-	170	-	-	570
(400)	-	-	(3,539)	-	(1,950)	(9,564)
(400)	-	-	(3,369)	-	(1,950)	(8,994)
95	136	-	(1,941)	(15)	(1,875)	(1,485)
12,604	627	3	15,456	66	20,446	114,827
\$ 12,699	\$ 763	\$ 3	\$ 13,515	\$ 51	\$ 18,571	113,342

**CITY OF PALO ALTO**  
**Non-major Special Revenue Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**For the Year Ended June 30, 2020**  
**(Amounts in thousands)**

	Street Improvement			Federal Revenue		
	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
REVENUES:						
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	2,793	2,793	-	-	-	-
Intergovernmental	-	-	-	1,384	1,172	(212)
Licenses, permits and fees						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other licenses, permits and fees	-	-	-	-	-	-
Investment earnings	9	(1)	(10)	-	-	-
Rental income	-	-	-	-	-	-
Housing In-Lieu - residential	-	-	-	-	-	-
Other:						
Loan payoffs	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
Total revenues	<u>2,802</u>	<u>2,792</u>	<u>(10)</u>	<u>1,384</u>	<u>1,172</u>	<u>(212)</u>
EXPENDITURES:						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Development Services	-	-	-	1,886	1,462	424
Office of Transportation	-	-	-	-	-	-
Police	-	-	-	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,886</u>	<u>1,462</u>	<u>424</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,802</u>	<u>2,792</u>	<u>(10)</u>	<u>(502)</u>	<u>(290)</u>	<u>212</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	(2,837)	(2,837)	-	-	-	-
Total other financing sources (uses)	<u>(2,837)</u>	<u>(2,837)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balances, budgetary basis	<u>\$ (35)</u>	<u>(45)</u>	<u>\$ (10)</u>	<u>\$ (502)</u>	<u>(290)</u>	<u>\$ 212</u>
Adjustment to Budgetary Basis:						
Unrealized gain (loss) on investments		(2)			-	
Changes in notes receivable		-			-	
Current year encumbrances/reappropriations		-			362	
CHANGE IN FUND BALANCE, GAAP BASIS		<u>(47)</u>			<u>72</u>	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		<u>75</u>			<u>5,221</u>	
FUND BALANCES, END OF YEAR, GAAP BASIS		<u>\$ 28</u>			<u>\$ 5,293</u>	



Housing In-Lieu			Special Districts			Transportation Mitigation		
Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	52	23	(29)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	2,464	83	(2,381)	-	-	-
-	-	-	880	22	(858)	-	-	-
-	-	-	1,198	49	(1,149)	276	429	153
463	366	(97)	109	92	(17)	260	217	(43)
9	-	(9)	-	-	-	-	-	-
2,150	5,804	3,654	-	-	-	-	-	-
25	-	(25)	-	-	-	-	-	-
170	85	(85)	-	29	29	-	-	-
2,817	6,255	3,438	4,703	298	(4,405)	536	646	110
-	-	-	330	261	69	-	-	-
-	-	-	1,697	1,634	63	-	-	-
20,462	20,720	(258)	1	7	(6)	-	-	-
-	-	-	3,539	2,005	1,534	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	43	42	1	-	-	-
695	75	620	206	410	(204)	-	-	-
21,157	20,795	362	5,816	4,359	1,457	-	-	-
(18,340)	(14,540)	3,800	(1,113)	(4,061)	(2,948)	536	646	110
-	-	-	400	400	-	-	-	-
-	-	-	(838)	(838)	-	(400)	(400)	-
-	-	-	(438)	(438)	-	(400)	(400)	-
<u>\$ (18,340)</u>	<u>(14,540)</u>	<u>\$ 3,800</u>	<u>\$ (1,551)</u>	<u>(4,499)</u>	<u>\$ (2,948)</u>	<u>\$ 136</u>	<u>246</u>	<u>\$ 110</u>
	(357)			(91)			(151)	
	18,752			-			-	
	1,789			1,036			-	
	5,644			(3,554)			95	
	53,510			6,819			12,604	
	<u>\$ 59,154</u>			<u>\$ 3,265</u>			<u>\$ 12,699</u>	

**CITY OF PALO ALTO**  
**Non-major Special Revenue Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**For the Year Ended June 30, 2021**  
**(Amounts in Thousands)**

	Local Law Enforcement			Asset Seizure		
	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
REVENUES:						
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	-	-	-	-	-	-
Intergovernmental	105	165	60	-	-	-
Licenses, permits and fees						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other licenses, permits and fees	-	-	-	-	-	-
Investment earnings	7	11	4	-	-	-
Rental income	-	-	-	-	-	-
Housing In-Lieu - residential	-	-	-	-	-	-
Other:						
Loan payoffs	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
Total revenues	<u>112</u>	<u>176</u>	<u>64</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Development Services	-	-	-	-	-	-
Office of Transportation	-	-	-	-	-	-
Police	105	36	69	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	-	-
Total expenditures	<u>105</u>	<u>36</u>	<u>69</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7</u>	<u>140</u>	<u>133</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balances, budgetary basis	<u>\$ 7</u>	<u>140</u>	<u>\$ 133</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Adjustment to Budgetary Basis:						
Unrealized gain (loss) on investments		(4)			-	
Changes in notes receivable		-			-	
Current year encumbrances/reappropriations		-			-	
CHANGE IN FUND BALANCE, GAAP BASIS		<u>136</u>			<u>-</u>	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		<u>627</u>			<u>3</u>	
FUND BALANCES, END OF YEAR, GAAP BASIS		<u>\$ 763</u>			<u>\$ 3</u>	

Developer Impact Fee			Downtown Business Improvement District			Public Benefit		
Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
\$ -	\$ -	\$ -	\$ 140	\$ 5	\$ (135)	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
875	1,578	703	-	-	-	-	-	-
352	227	(125)	-	-	-	370	324	(46)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	40	40	-	-	-	-	-	-
1,227	1,845	618	140	5	(135)	370	324	(46)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
203	204	(1)	-	-	-	-	-	-
-	-	-	203	20	183	-	-	-
203	204	(1)	203	20	183	-	-	-
1,024	1,641	617	(63)	(15)	48	370	324	(46)
170	170	-	-	-	-	-	-	-
(3,539)	(3,539)	-	-	-	-	(1,950)	(1,950)	-
(3,369)	(3,369)	-	-	-	-	(1,950)	(1,950)	-
\$ (2,345)	(1,728)	\$ 617	\$ (63)	(15)	\$ 48	\$ (1,580)	(1,626)	\$ (46)
	(213)			-			(249)	
	-			-			-	
	-			-			-	
	(1,941)			(15)			(1,875)	
	15,456			66			20,446	
\$	13,515		\$	51		\$	18,571	

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## **NON-MAJOR GOVERNMENTAL FUNDS**

### **DEBT SERVICE FUNDS**

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

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

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

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

#### **Library Projects**

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

#### **Public Safety Building**

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

**CITY OF PALO ALTO**  
**Non-major Debt Service Funds**  
**Combining Balance Sheet**  
**June 30, 2021**  
**(Amounts in thousands)**

	2018 Golf Course Capital Improvement	2019 California Avenue Parking Garage COPs	Library Projects	Public Safety Building	Total Debt Service Funds
ASSETS:					
Cash and investments available for operations	\$ 1	\$ 5	\$ 3,722	\$ -	\$ 3,728
Receivables:					
Accounts and intergovernmental	-	-	2	-	2
Interest	-	-	19	-	19
Restricted cash and investments with fiscal agents	18	16	-	4,621	4,655
Total assets	<u>\$ 19</u>	<u>\$ 21</u>	<u>\$ 3,743</u>	<u>\$ 4,621</u>	<u>\$ 8,404</u>
FUND BALANCES:					
Restricted:					
Debt service	<u>\$ 19</u>	<u>\$ 21</u>	<u>\$ 3,743</u>	<u>\$ 4,621</u>	<u>\$ 8,404</u>

**CITY OF PALO ALTO**  
**Non-major Debt Service Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	2018 Golf Course Capital Improvement	2019 California Avenue Parking Garage COPs	Library Projects	Public Safety Building	Total Debt Service Funds
REVENUES:					
Property tax	\$ -	\$ -	\$ 4,329	\$ -	\$ 4,329
Investment earnings	-	-	(10)	-	(10)
Total revenues	-	-	4,319	-	4,319
EXPENDITURES:					
Debt service:					
Principal retirement	185	630	1,780	-	2,595
Interest and fiscal charges	345	1,748	2,646	1,408	6,147
Total expenditures	530	2,378	4,426	1,408	8,742
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(530)	(2,378)	(107)	(1,408)	(4,423)
OTHER FINANCING SOURCES (USES):					
Issuance of debt	-	-	-	6,029	6,029
Transfers in	530	2,380	-	-	2,910
Total other financing sources (uses)	530	2,380	-	6,029	8,939
Change in fund balances	-	2	(107)	4,621	4,516
FUND BALANCES, BEGINNING OF YEAR	19	19	3,850	-	3,888
FUND BALANCES, END OF YEAR	\$ 19	\$ 21	\$ 3,743	\$ 4,621	\$ 8,404

**CITY OF PALO ALTO**  
**Non-major Debt Service Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	2018 Golf Course Capital Improvement			2019 California Avenue Parking Garage COPs			Library Projects			Public Safety Building		
	Actual, Budgetary			Actual, Budgetary			Actual, Budgetary			Actual, Budgetary		
	Budget	Basis	Variance	Budget	Basis	Variance	Budget	Basis	Variance	Budget	Basis	Variance
REVENUES:												
Property tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,559	\$ 4,329	\$ (230)	\$ -	\$ -	\$ -
Investment earnings	-	-	-	-	-	-	29	32	3	-	-	-
Total revenues	-	-	-	-	-	-	4,588	4,361	(227)	-	-	-
EXPENDITURES:												
Debt service:												
Principal retirement	185	185	-	630	630	-	1,780	1,780	-	-	-	-
Interest and fiscal charges	345	345	-	1,750	1,748	2	2,646	2,646	-	1,408	1,408	-
Total expenditures	530	530	-	2,380	2,378	2	4,426	4,426	-	1,408	1,408	-
Excess (deficiency) of revenues over (under) expenditures	(530)	(530)	-	(2,380)	(2,378)	2	162	(65)	(227)	(1,408)	(1,408)	-
OTHER FINANCING SOURCES (USES):												
Issuance of debt	-	-	-	-	-	-	-	-	-	6,029	6,029	-
Transfers in	530	530	-	2,380	2,380	-	-	-	-	-	-	-
Total other financing sources (uses)	530	530	-	2,380	2,380	-	-	-	-	6,029	6,029	-
Change in fund balances, budgetary basis	\$ -	-	\$ -	\$ -	2	\$ 2	\$ 162	(65)	\$ (227)	\$ 4,621	4,621	\$ -
Adjustment to Budgetary Basis:												
Unrealized gain (loss) on investments		-			-			(42)			-	
CHANGE IN FUND BALANCE, GAAP BASIS		-			2			(107)			4,621	
FUND BALANCES, BEGINNING OF YEAR		19			19			3,850			-	
FUND BALANCES, END OF YEAR		\$ 19			\$ 21			\$ 3,743			\$ 4,621	



## **NON-MAJOR GOVERNMENTAL FUNDS**

### **PERMANENT FUND**

#### **Eyerly Family**

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

**CITY OF PALO ALTO**  
**Non-major Permanent Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	Eyerly Family Permanent Fund		
	Budget	Actual, Budgetary Basis	Variance Positive (Negative)
REVENUES:			
Investment earnings	\$ 42	\$ 44	\$ 2
Change in fund balance	<u>\$ 42</u>	<u>44</u>	<u>\$ 2</u>
Adjustment to Budgetary Basis:			
Unrealized gain (loss) on investments		<u>(28)</u>	
CHANGE IN FUND BALANCE, GAAP BASIS		16	
FUND BALANCE, BEGINNING OF YEAR		<u>2,540</u>	
FUND BALANCE, END OF YEAR		<u>\$ 2,556</u>	

## **INTERNAL SERVICE FUNDS**

### **INTRODUCTION**

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

### **Vehicle Replacement and Maintenance**

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

### **Technology**

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

### **Printing and Mailing Services**

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

### **General Benefits**

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

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

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

### **General Liabilities Insurance Program**

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

### **Retiree Health Benefits**

This fund accounts for the retiree health benefits contributions.

**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Fund Net Position**  
**June 30, 2021**  
**(Amounts in thousands)**

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
<b>ASSETS:</b>								
Current Assets:								
Cash and investments available for operations	\$ 11,524	\$ 22,009	\$ 231	\$ 22,833	\$ 27,555	\$ 9,970	\$ 2,684	\$ 96,806
Accounts receivable, net	70	-	-	16	12	-	-	98
Interest receivable	62	119	1	108	134	50	10	484
Inventory of materials and supplies	116	-	-	-	-	-	-	116
Restricted cash and investments with fiscal agents and trustees	-	-	-	37,089	-	-	-	37,089
Total current assets	11,772	22,128	232	60,046	27,701	10,020	2,694	134,593
Noncurrent Assets:								
Capital assets:								
Nondepreciable	1,839	3,748	-	-	-	-	-	5,587
Depreciable, net	15,419	1,909	26	-	-	-	-	17,354
Total noncurrent assets	17,258	5,657	26	-	-	-	-	22,941
Total assets	29,030	27,785	258	60,046	27,701	10,020	2,694	157,534
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>								
Pension related	469	2,058	10	-	41	-	-	2,578
OPEB related	271	552	10	-	11	-	-	844
Total deferred outflows of resources	740	2,610	20	-	52	-	-	3,422
<b>LIABILITIES:</b>								
Current Liabilities:								
Accounts payable and accruals	62	195	105	1,253	94	-	-	1,709
Accrued salaries and benefits	37	140	2	-	71	-	-	250
Accrued compensated absences	-	-	-	6,327	-	-	-	6,327
Accrued claims payable - current	-	-	-	160	4,240	2,411	-	6,811
Total current liabilities	99	335	107	7,740	4,405	2,411	-	15,097
Noncurrent liabilities:								
Accrued compensated absences	-	-	-	9,320	-	-	-	9,320
Accrued claims payable	-	-	-	-	21,792	3,928	-	25,720
Net pension liabilities	3,704	13,567	273	-	4	-	-	17,548
Net OPEB liabilities	1,532	3,127	141	-	-	-	-	4,800
Total noncurrent liabilities	5,236	16,694	414	9,320	21,796	3,928	-	57,388
Total liabilities	5,335	17,029	521	17,060	26,201	6,339	-	72,485
<b>DEFERRED INFLOWS OF RESOURCES:</b>								
OPEB related	288	587	11	-	11	-	-	897
<b>NET POSITION:</b>								
Net Investment in capital assets	17,258	5,657	26	-	-	-	-	22,941
Restricted for supplemental pension	-	-	-	37,089	-	-	-	37,089
Unrestricted	6,889	7,122	(280)	5,897	1,541	3,681	2,694	27,544
Total net position	\$ 24,147	\$ 12,779	\$ (254)	\$ 42,986	\$ 1,541	\$ 3,681	\$ 2,694	\$ 87,574

**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
<b>OPERATING REVENUES:</b>								
Charges for services	\$ 6,522	\$ 12,322	\$ 1,314	\$ 72,224	\$ 6,578	\$ 2,892	\$ 13,577	\$ 115,429
Other	-	27	-	-	162	11	-	200
Total operating revenues	6,522	12,349	1,314	72,224	6,740	2,903	13,577	115,629
<b>OPERATING EXPENSES:</b>								
Administrative and general	1,478	7,801	948	137	613	2,208	27	13,212
Operations and maintenance	3,269	7,463	253	1,577	203	-	-	12,765
Depreciation	2,751	395	7	-	-	-	-	3,153
Claim payments and change in estimated self-insured liability	-	-	-	1,524	6,075	1,146	-	8,745
Refund of charges for services	105	10	-	-	-	-	-	115
Employment benefits	-	-	-	61,205	-	-	14,570	75,775
Total operating expenses	7,603	15,669	1,208	64,443	6,891	3,354	14,597	113,765
Operating income (loss)	(1,081)	(3,320)	106	7,781	(151)	(451)	(1,020)	1,864
<b>NONOPERATING REVENUES (EXPENSES):</b>								
Investment earnings	83	83	(1)	3,380	224	65	57	3,891
Gain on disposal of capital assets	385	-	-	-	-	-	-	385
Other nonoperating revenues	5	-	-	-	-	-	-	5
Total nonoperating revenues (expenses)	473	83	(1)	3,380	224	65	57	4,281
Income (loss) before transfers	(608)	(3,237)	105	11,161	73	(386)	(963)	6,145
Transfers in	105	1,340	-	-	-	5	2,347	3,797
Transfers out	(326)	(31)	-	(2,347)	-	-	-	(2,704)
Change in net position	(829)	(1,928)	105	8,814	73	(381)	1,384	7,238
NET POSITION, BEGINNING OF YEAR	24,976	14,707	(359)	34,172	1,468	4,062	1,310	80,336
NET POSITION, END OF YEAR	\$ 24,147	\$ 12,779	\$ (254)	\$ 42,986	\$ 1,541	\$ 3,681	\$ 2,694	\$ 87,574

**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Cash Flows**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
Cash flows from operating activities:								
Cash received from customers	\$ 6,455	\$ 12,354	\$ 1,314	\$ 72,225	\$ 6,572	\$ 2,903	\$ 13,577	\$ 115,400
Cash payments to suppliers for goods and services	(2,895)	(7,615)	(1,011)	59	(430)	(2,218)	-	(14,110)
Cash payments to employees	(2,191)	(7,694)	(146)	(61,422)	(368)	-	(14,597)	(86,418)
Cash payments for judgments and claims	-	-	-	(1,524)	(3,814)	(427)	-	(5,765)
Other cash receipts	5	-	-	-	-	-	-	5
Net cash flows provided by (used in) operating activities	1,374	(2,955)	157	9,338	1,960	258	(1,020)	9,112
Cash flows from noncapital financing activities:								
Transfers in	105	1,340	-	-	-	5	2,347	3,797
Transfers out	(326)	(31)	-	(2,347)	-	-	-	(2,704)
Net cash flows provided by (used in) noncapital financing activities	(221)	1,309	-	(2,347)	-	5	2,347	1,093
Cash flows from capital and related financing activities:								
Acquisition of capital assets	(3,317)	(1,511)	-	-	-	-	-	(4,828)
Proceeds from sale of capital assets	484	-	-	-	-	-	-	484
Net cash flows (used in) capital and related financing activities	(2,833)	(1,511)	-	-	-	-	-	(4,344)
Cash flows from investing activities:								
Investment interest received (expenses paid)	88	110	(1)	3,377	223	66	51	3,914
Net change in cash and cash equivalents	(1,592)	(3,047)	156	10,368	2,183	329	1,378	9,775
Cash and cash equivalents, beginning of year	13,116	25,056	75	49,554	25,372	9,641	1,306	124,120
Cash and cash equivalents, end of year	\$ 11,524	\$ 22,009	\$ 231	\$ 59,922	\$ 27,555	\$ 9,970	\$ 2,684	\$ 133,895
Financial statement presentation:								
Cash and investments available for operations	\$ 11,524	\$ 22,009	\$ 231	\$ 22,833	\$ 27,555	\$ 9,970	\$ 2,684	\$ 96,806
Restricted cash and investments with fiscal agents and trustees	-	-	-	37,089	-	-	-	37,089
Cash and cash equivalents, end of year	\$ 11,524	\$ 22,009	\$ 231	\$ 59,922	\$ 27,555	\$ 9,970	\$ 2,684	\$ 133,895
Reconciliation of operating income (loss) to net cash flows provided by (used in) operating activities:								
Operating income (loss)	\$ (1,081)	\$ (3,320)	\$ 106	\$ 7,781	\$ (151)	\$ (451)	\$ (1,020)	\$ 1,864
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation	2,751	395	7	-	-	-	-	3,153
Other	5	-	-	-	-	-	-	5
Change in assets and liabilities:								
Accounts receivable	(67)	5	-	1	(6)	-	-	(67)
Inventory of materials and supplies	(14)	-	-	-	-	-	-	(14)
Deferred outflows of resources - pension plans	32	(330)	23	-	-	-	-	(275)
Deferred outflows of resources - OPEB	12	24	1	-	-	-	-	37
Accounts payable and accruals	(74)	(16)	63	153	25	(10)	-	141
Accrued salaries and benefits	3	9	(2)	-	37	-	-	47
Accrued compensated absences	-	-	-	1,403	-	-	-	1,403
Accrued claims payable	-	-	-	-	2,099	719	-	2,818
Net pension liability	8	747	(33)	-	(41)	-	-	681
Net OPEB liability	(29)	(58)	(2)	-	-	-	-	(89)
Deferred inflows of resources - pension plans	(131)	(326)	(3)	-	(2)	-	-	(462)
Deferred inflows of resources - OPEB	(41)	(85)	(3)	-	(1)	-	-	(130)
Net cash flows provided by (used in) operating activities	\$ 1,374	\$ (2,955)	\$ 157	\$ 9,338	\$ 1,960	\$ 258	\$ (1,020)	\$ 9,112

## **FIDUCIARY FUNDS**

### **INTRODUCTION**

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

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

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

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

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

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

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

**CITY OF PALO ALTO**  
**Custodial Funds**  
**Combining Statement of Fiduciary Net Position**  
**June 30, 2021**  
**(Amounts in thousands)**

	Cable Joint Powers Authority	University Avenue Area Off-Street Parking Assessment District	Total
<b>ASSETS:</b>			
Cash and investments available for operations (Note 3)	\$ 1,207	\$ 2,069	\$ 3,276
Accounts receivable	459	32	491
Interest receivable	5	11	16
Restricted cash and investments with fiscal agents (Note 3)	-	2,705	2,705
Total assets	<u>1,671</u>	<u>4,817</u>	<u>6,488</u>
<b>LIABILITIES:</b>			
Accounts payable and accruals	<u>411</u>	<u>-</u>	<u>411</u>
<b>NET POSITION:</b>			
Restricted for:			
Governmental entities	1,260	-	1,260
Bondholders of special assessment bonds	-	4,817	4,817
Total net position	<u>\$ 1,260</u>	<u>\$ 4,817</u>	<u>\$ 6,077</u>



**CITY OF PALO ALTO**  
**Custodial Funds**  
**Combining Statement of Changes in Fiduciary Net Position**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	Cable Joint Powers Authority	University Avenue Area Off-Street Parking Assessment District	Total
ADDITIONS:			
Franchise and other fees collected	\$ 1,821	\$ -	\$ 1,821
Special assessments collected	-	2,407	2,407
Investment earnings	14	(5)	9
Other	-	5	5
Total additions	<u>1,835</u>	<u>2,407</u>	<u>4,242</u>
DEDUCTIONS:			
Administrative and general	34	5	39
Distribution to governmental entities	1,538	-	1,538
Debt services payments	-	2,409	2,409
Total deductions	<u>1,572</u>	<u>2,414</u>	<u>3,986</u>
Changes in net position	263	(7)	256
NET POSITION, BEGINNING OF YEAR	<u>997</u>	<u>4,824</u>	<u>5,821</u>
NET POSITION, END OF YEAR	<u><u>\$ 1,260</u></u>	<u><u>\$ 4,817</u></u>	<u><u>\$ 6,077</u></u>

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## **STATISTICAL SECTION**

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

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

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

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

### **Financial Trends**

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

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

### **Revenue Capacity**

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

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

### **Debt Capacity**

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

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

## **STATISTICAL SECTION**

### **Demographic and Economic Information**

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

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

### **Operating Information**

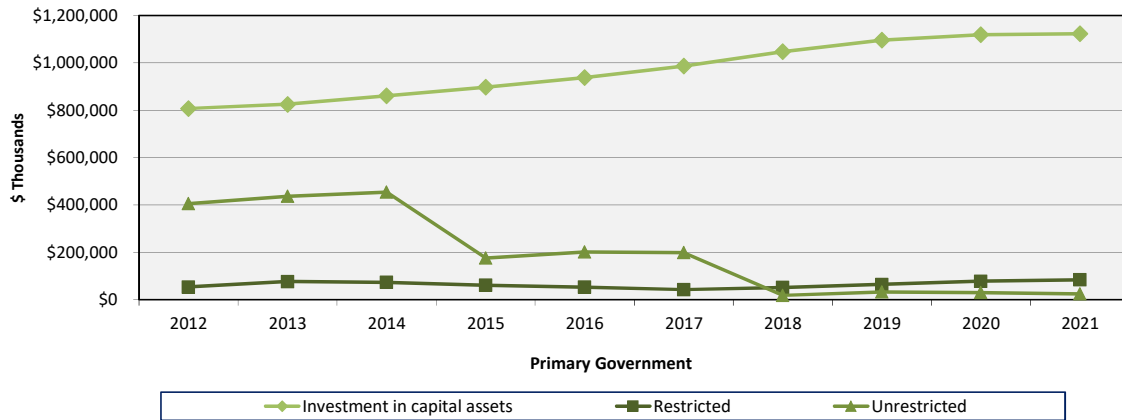
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

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

### **Sources**

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

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



	Fiscal Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b><u>Governmental Activities</u></b>										
Investment in capital assets	\$ 370,111	\$ 378,047	\$ 386,696	\$ 405,921	\$ 425,179	\$ 453,878	\$ 473,233	\$ 493,706	\$ 497,378	\$ 480,620
Restricted	52,934	71,717	68,331	55,963	47,907	38,138	46,724	59,669	73,274	80,265
Unrestricted	142,102	165,810	187,386	1,972	37,905	35,273	(92,587)	(103,392)	(130,078)	(137,748)
<b>Total Governmental Activities Net Position</b>	<b>\$ 565,147</b>	<b>\$ 615,574</b>	<b>\$ 642,413</b>	<b>\$ 463,856</b>	<b>\$ 510,991</b>	<b>\$ 527,289</b>	<b>\$ 427,370</b>	<b>\$ 449,983</b>	<b>\$ 440,574</b>	<b>\$ 423,137</b>
<b><u>Business-type Activities</u></b>										
Investment in capital assets	\$ 437,151	\$ 446,597	\$ 473,795	\$ 490,874	\$ 512,918	\$ 532,063	\$ 573,688	\$ 602,136	\$ 621,354	\$ 642,018
Restricted	-	4,060	4,166	4,142	4,115	4,073	4,014	4,016	4,060	3,340
Unrestricted	262,602	269,926	266,794	172,802	162,806	163,158	110,429	135,391	159,592	161,861
<b>Total Business-type Activities Net Position</b>	<b>\$ 699,753</b>	<b>\$ 720,583</b>	<b>\$ 744,755</b>	<b>\$ 667,818</b>	<b>\$ 679,839</b>	<b>\$ 699,294</b>	<b>\$ 688,131</b>	<b>\$ 741,543</b>	<b>\$ 785,006</b>	<b>\$ 807,219</b>
<b><u>Primary Government</u></b>										
Investment in capital assets	\$ 807,262	\$ 824,644	\$ 860,491	\$ 896,795	\$ 938,097	\$ 985,941	\$ 1,046,921	\$ 1,095,842	\$ 1,118,732	\$ 1,122,638
Restricted	52,934	75,777	72,497	60,105	52,022	42,211	50,738	63,685	77,334	83,605
Unrestricted	404,704	435,736	454,180	174,774	200,711	198,431	17,842	31,999	29,514	24,113
<b>Total Primary Government Net Position</b>	<b>\$ 1,264,900</b>	<b>\$ 1,336,157</b>	<b>\$ 1,387,168</b>	<b>\$ 1,131,674</b>	<b>\$ 1,190,830</b>	<b>\$ 1,226,583</b>	<b>\$ 1,115,501</b>	<b>\$ 1,191,526</b>	<b>\$ 1,225,580</b>	<b>\$ 1,230,356</b>

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

Source: Annual Financial Statements, Statement of Net Position

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

	Fiscal Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>PROGRAM REVENUES</b>										
<b><u>Governmental Activities</u></b>										
Charges for services										
Administrative Services	\$ 1,647	\$ 15,629	\$ 4,055	\$ 5,460	\$ 9,444	\$ 5,242	\$ 6,536	\$ 6,413	\$ 5,758	\$ 1,150
Public Works	1,008	1,314	1,093	1,209	599	878	781	1,478	990	937
Planning & Community Environment	31,491	28,768	12,896	8,090	9,071	6,067	5,119	11,997	-	-
Development Services <sup>1&amp;2</sup>	-	-	-	12,019	12,570	11,768	16,000	13,904	-	-
Planning & Development Services <sup>2</sup>	-	-	-	-	-	-	-	-	16,173	21,228
Office of Transportation <sup>3</sup>	-	-	-	-	-	-	-	-	1,161	80
Public Safety	15,658	16,139	14,902	15,726	13,945	12,670	13,507	14,179	12,101	11,135
Community Services	11,365	13,808	20,882	20,912	21,551	20,472	21,285	22,805	20,808	20,893
Library	1,600	187	166	137	198	139	145	134	94	47
Operating grants and contributions	3,441	5,038	5,360	5,300	2,164	1,990	14,054	2,100	2,619	3,033
Capital grants and contributions	1,064	515	917	619	344	1,929	1,534	8,247	9,021	11,326
<b>Total Governmental Activities</b>										
<b>Program Revenues</b>	<b>67,274</b>	<b>81,398</b>	<b>60,271</b>	<b>69,472</b>	<b>69,886</b>	<b>61,155</b>	<b>78,961</b>	<b>81,257</b>	<b>68,725</b>	<b>69,829</b>
<b><u>Business-type Activities</u></b>										
Charges for services										
Water	31,467	37,746	40,291	35,847	37,588	42,678	45,087	45,571	48,740	48,812
Electric	118,886	121,805	121,916	120,842	120,743	137,543	154,142	163,514	169,389	162,240
Fiber Optics	3,662	4,382	4,485	4,627	4,505	4,553	4,529	4,657	4,576	3,936
Gas	41,774	34,633	35,737	30,751	30,212	36,431	37,044	42,113	37,402	39,520
Wastewater Collection	14,942	16,077	15,599	16,182	16,496	17,748	17,990	20,219	20,933	20,484
Wastewater Treatment	22,200	21,528	18,460	24,120	23,825	23,649	27,382	27,573	29,310	30,522
Refuse	30,645	30,583	30,297	31,576	32,169	33,918	34,647	33,996	32,695	30,636
Storm Drainage	5,892	6,053	6,183	6,281	6,520	6,693	6,964	7,249	7,543	7,785
Airport	-	-	-	683	826	1,286	2,382	2,483	2,362	2,585
Operating grants and contributions	605	572	549	534	744	512	501	488	473	462
Capital grants and contributions	1,526	2,224	2,005	2,080	1,061	4,265	14,194	6,677	6,449	6,391
<b>Total Business-type Activities</b>										
<b>Program Revenues</b>	<b>271,599</b>	<b>275,603</b>	<b>275,522</b>	<b>273,523</b>	<b>274,689</b>	<b>309,276</b>	<b>344,862</b>	<b>354,540</b>	<b>359,872</b>	<b>353,373</b>
<b>Total Primary Government</b>										
<b>Program Revenues</b>	<b>\$ 338,873</b>	<b>\$ 357,001</b>	<b>\$ 335,793</b>	<b>\$ 342,995</b>	<b>\$ 344,575</b>	<b>\$ 370,431</b>	<b>\$ 423,823</b>	<b>\$ 435,797</b>	<b>\$ 428,597</b>	<b>\$ 423,202</b>
<b>EXPENSES</b>										
<b><u>Governmental Activities</u></b>										
City Council	\$ 345	\$ 94	\$ 387	\$ 271	\$ 352	\$ 329	\$ 345	\$ 270	\$ 172	\$ 178
City Manager	1,960	1,237	2,180	2,155	2,662	1,975	2,757	3,336	3,616	2,466
City Attorney	1,656	1,642	1,797	1,759	2,472	2,140	2,511	3,086	2,845	2,292
City Clerk	908	330	641	680	582	762	931	822	748	702
City Auditor	235	464	489	362	414	847	994	1,081	645	641
Administrative Services	10,100	7,614	11,388	9,980	10,637	11,887	13,949	19,169	15,919	22,985
Human Resources	1,071	1,420	1,346	1,464	2,224	2,272	2,674	3,021	3,060	2,518
Public Works	14,568	20,816	24,577	21,075	24,613	25,539	30,349	36,617	45,609	52,727
Planning & Community Environment <sup>2</sup>	12,074	13,549	14,926	8,423	10,208	10,918	11,357	12,169	-	-
Development Services <sup>1&amp;2</sup>	-	-	-	10,449	11,158	11,102	12,664	12,622	-	-
Planning & Development Services <sup>2</sup>	-	-	-	-	-	-	-	-	21,725	18,141
Office of Transportation <sup>3</sup>	-	-	-	-	-	-	-	-	4,693	3,636
Public Safety (Police and Fire)	62,817	59,452	62,883	58,660	56,653	73,320	83,923	89,189	92,187	80,758
Community Services	21,915	22,705	23,822	24,688	28,547	27,866	33,709	36,815	34,147	30,289
Library	7,323	7,319	7,758	7,721	10,825	11,437	12,208	12,557	12,971	11,145
Interest on long term debt	2,575	2,562	3,367	3,658	3,552	2,846	2,761	3,653	4,576	6,317
<b>Total Governmental</b>										
<b>Activities Expenses</b>	<b>137,547</b>	<b>139,204</b>	<b>155,561</b>	<b>151,345</b>	<b>164,899</b>	<b>183,240</b>	<b>211,132</b>	<b>234,407</b>	<b>242,913</b>	<b>234,795</b>
<b><u>Business-type Activities</u></b>										
Water	29,093	30,707	31,593	33,205	35,120	37,535	40,836	40,606	43,034	43,556
Electric	102,030	106,438	113,004	122,499	120,319	128,603	146,033	139,605	142,426	156,105
Fiber Optics	1,489	1,437	1,661	1,891	2,107	2,159	2,653	2,476	2,761	2,529
Gas	28,878	26,749	26,869	23,525	20,879	26,783	27,930	30,915	27,212	28,556
Wastewater Collection	14,825	14,313	13,235	14,595	15,199	16,405	16,801	17,324	18,877	19,577
Wastewater Treatment	20,712	20,635	21,018	21,553	22,546	23,498	27,518	27,070	28,755	28,403
Refuse	31,900	28,542	28,413	27,974	30,370	30,665	28,808	30,391	36,947	29,138
Storm Drainage	3,103	3,703	3,644	3,721	3,735	4,106	5,059	4,951	5,514	4,897
Airport	153	246	466	1,004	970	1,274	1,656	1,790	2,131	1,499
<b>Total Business-type</b>										
<b>Activities Expenses</b>	<b>232,183</b>	<b>232,770</b>	<b>239,903</b>	<b>249,967</b>	<b>251,245</b>	<b>271,028</b>	<b>297,294</b>	<b>295,128</b>	<b>307,657</b>	<b>314,260</b>
<b>Total Primary</b>										
<b>Government Expenses</b>	<b>\$ 369,730</b>	<b>\$ 371,974</b>	<b>\$ 395,464</b>	<b>\$ 401,312</b>	<b>\$ 416,144</b>	<b>\$ 454,268</b>	<b>\$ 508,426</b>	<b>\$ 529,535</b>	<b>\$ 550,570</b>	<b>\$ 549,055</b>

	Fiscal Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>NET (EXPENSE)/REVENUE</b>										
Governmental Activities	\$ (70,273)	\$ (57,806)	\$ (95,290)	\$ (81,873)	\$ (95,013)	\$ (122,085)	\$ (132,171)	\$ (153,150)	\$ (174,188)	\$ (164,966)
Business-type Activities	39,416	42,833	35,619	23,556	23,444	38,248	47,568	59,412	52,215	39,113
<b>Total Primary Government</b>										
<b>Net (Expense)/Revenue</b>	<u>\$ (30,857)</u>	<u>\$ (14,973)</u>	<u>\$ (59,671)</u>	<u>\$ (58,317)</u>	<u>\$ (71,569)</u>	<u>\$ (83,837)</u>	<u>\$ (84,603)</u>	<u>\$ (93,738)</u>	<u>\$ (121,973)</u>	<u>\$ (125,853)</u>
<b>GENERAL REVENUES AND OTHER CHANGES IN NET POSITION</b>										
<b><u>Governmental Activities</u></b>										
Taxes										
Property tax	\$ 30,104	\$ 31,929	\$ 35,299	\$ 38,750	\$ 41,189	\$ 43,953	\$ 47,170	\$ 51,718	\$ 55,604	\$ 60,901
Sales tax	22,132	25,606	29,424	29,675	30,018	29,923	31,091	36,508	30,563	29,127
Utility user tax	10,834	10,861	11,008	10,861	12,469	14,240	15,414	16,402	16,140	14,642
Transient occupancy tax	9,664	10,794	12,255	16,699	22,366	23,477	24,937	25,649	18,553	5,179
Other taxes	8,173	10,504	9,660	11,867	7,868	8,989	11,337	9,525	9,775	13,471
Investment earnings	6,238	(1,228)	5,859	5,010	8,639	(711)	420	15,375	13,850	4,939
Miscellaneous	14,943	518	2,575	3,428	894	168	1,973	1,906	60	183
Transfers	17,426	19,249	17,103	16,405	18,705	18,344	19,077	18,680	20,234	19,087
<b>Total Governmental Activities</b>	<u>119,514</u>	<u>108,233</u>	<u>123,183</u>	<u>132,695</u>	<u>142,148</u>	<u>138,383</u>	<u>151,419</u>	<u>175,763</u>	<u>164,779</u>	<u>147,529</u>
<b><u>Business-type Activities</u></b>										
Investment earnings	7,605	(2,754)	6,379	4,857	7,282	(449)	596	12,680	11,482	2,187
Transfers	(17,426)	(19,249)	(17,103)	(16,405)	(18,705)	(18,344)	(19,077)	(18,680)	(20,234)	(19,087)
<b>Total Business-type Activities</b>	<u>(9,821)</u>	<u>(22,003)</u>	<u>(10,724)</u>	<u>(11,548)</u>	<u>(11,423)</u>	<u>(18,793)</u>	<u>(18,481)</u>	<u>(6,000)</u>	<u>(8,752)</u>	<u>(16,900)</u>
<b>Total Primary Government</b>	<u>\$ 109,693</u>	<u>\$ 86,230</u>	<u>\$ 112,459</u>	<u>\$ 121,147</u>	<u>\$ 130,725</u>	<u>\$ 119,590</u>	<u>\$ 132,938</u>	<u>\$ 169,763</u>	<u>\$ 156,027</u>	<u>\$ 130,629</u>
<b>CHANGE IN NET POSITION</b>										
Governmental Activities	\$ 49,241	\$ 50,427	\$ 27,893	\$ 50,822	\$ 47,135	\$ 16,298	\$ 19,248	\$ 22,613	\$ (9,409)	\$ (17,437)
Business-type Activities	29,595	20,830	24,895	12,008	12,021	19,455	29,087	53,412	43,463	22,213
<b>Total Primary Government</b>										
<b>Change in Net Position</b>	<u>\$ 78,836</u>	<u>\$ 71,257</u>	<u>\$ 52,788</u>	<u>\$ 62,830</u>	<u>\$ 59,156</u>	<u>\$ 35,753</u>	<u>\$ 48,335</u>	<u>\$ 76,025</u>	<u>\$ 34,054</u>	<u>\$ 4,776</u>

Notes:

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

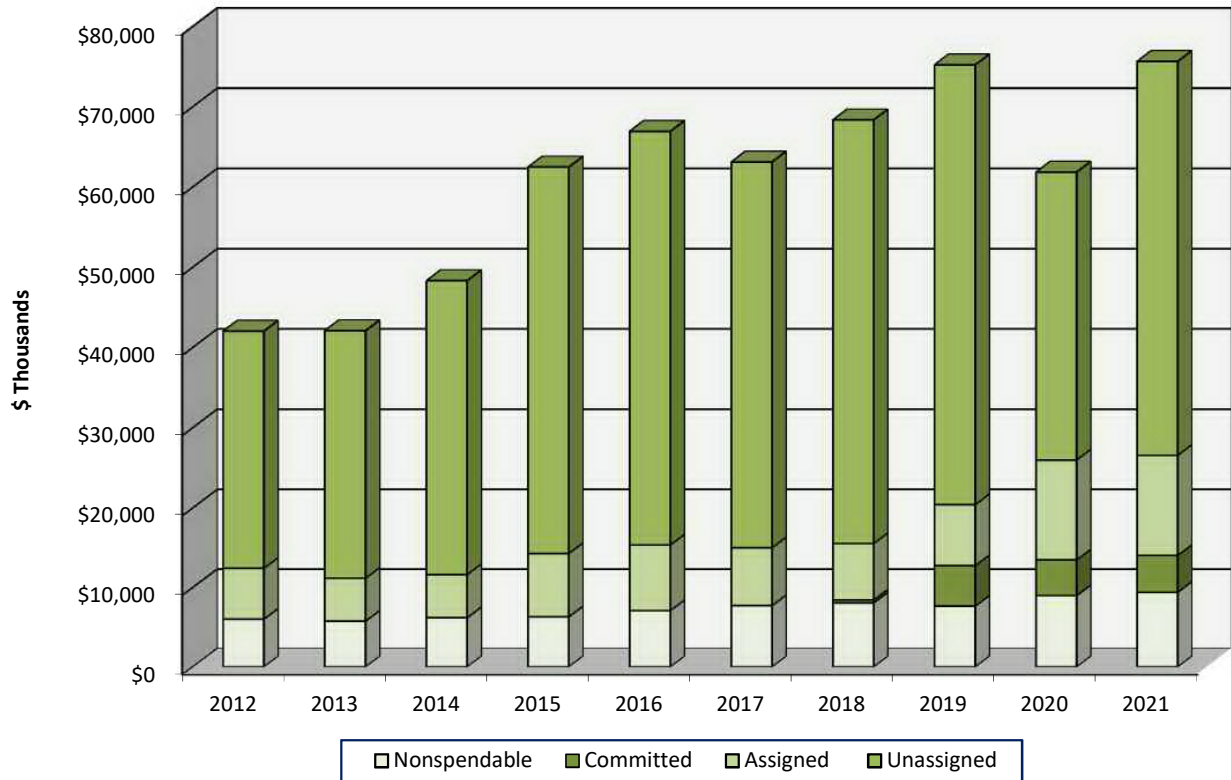
<sup>2</sup>In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.

<sup>3</sup>In FY20, the City established the Office of Transportation.

Source:

Annual Financial Statements, Statement of Activities

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

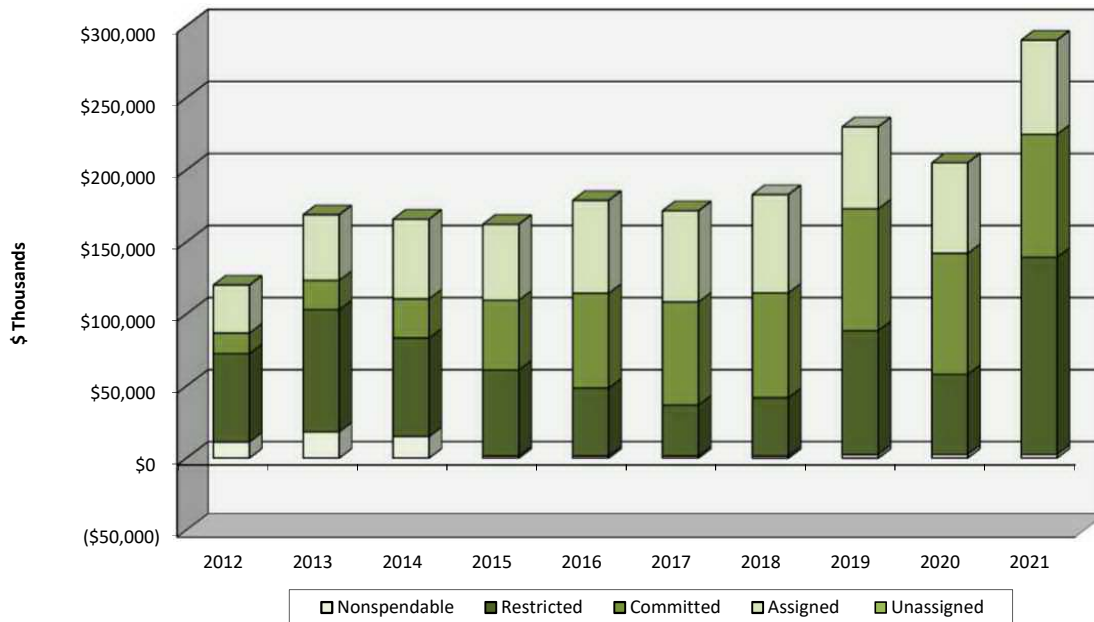


	Fiscal Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>General Fund</b>										
Nonspendable	\$ 6,007	\$ 5,749	\$ 6,188	\$ 6,296	\$ 7,088	\$ 7,709	\$ 8,049	\$ 7,647	\$ 8,967	\$ 9,376
Committed	-	-	-	-	-	-	373	5,100	4,505	4,651
Assigned	6,400	5,415	5,432	7,976	8,261	7,280	7,098	7,657	12,496	12,520
Unassigned	29,616	30,913	36,690	48,198	51,582	48,118	52,826	54,811	35,871	49,089
<b>Total General Fund</b>	<b>\$ 42,023</b>	<b>\$ 42,077</b>	<b>\$ 48,310</b>	<b>\$ 62,470</b>	<b>\$ 66,931</b>	<b>\$ 63,107</b>	<b>\$ 68,346</b>	<b>\$ 75,215</b>	<b>\$ 61,839</b>	<b>\$ 75,636</b>

Source: Annual Financial Statements, Balance Sheet



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



	Fiscal Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>All Other Governmental Funds</b>										
Nonspendable	\$ 11,112	\$ 18,189	\$ 14,869	\$ 1,468	\$ 1,505	\$ 1,499	\$ 1,498	\$ 2,438	\$ 2,540	\$ 2,556
Restricted	61,324	84,688	68,468	59,650	47,113	35,298	40,317	85,940	55,548	136,795
Committed	14,284	20,400	27,145	48,434	65,745	71,566	72,781	84,616	83,973	85,324
Assigned	33,264	45,514	55,211	52,627	64,411	63,225	68,261	56,842	62,825	65,331
Unassigned	-	-	-	-	-	-	(32)	(32)	-	-
<b>Total All Other Governmental Funds</b>	<u>\$ 119,984</u>	<u>\$ 168,791</u>	<u>\$ 165,693</u>	<u>\$ 162,179</u>	<u>\$ 178,774</u>	<u>\$ 171,588</u>	<u>\$ 182,825</u>	<u>\$ 229,804</u>	<u>\$ 204,886</u>	<u>\$ 290,006</u>

Source: Annual Financial Statements, Balance Sheet

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

	Fiscal Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenues</b>										
Property tax	\$ 30,216	\$ 32,040	\$ 35,393	\$ 38,836	\$ 41,289	\$ 44,050	\$ 47,242	\$ 51,776	\$ 55,628	\$ 60,906
Sales tax	22,132	25,606	29,424	29,675	30,018	29,923	31,091	36,508	30,563	29,127
Other taxes and fines	29,231	32,141	35,305	41,576	44,909	48,875	53,837	53,525	45,729	33,947
Contributions <sup>5</sup>	-	-	-	-	-	-	11,733	-	-	-
Charges for services	46,273	38,976	23,962	25,973	23,910	22,267	26,835	27,346	24,127	25,106
From other agencies	1,116	4,109	5,700	7,727	4,417	5,443	5,392	4,689	12,315	15,252
Permits and licenses	7,136	8,218	8,990	9,179	11,228	10,523	12,786	17,759	13,144	9,422
Interest and rentals	18,583	12,136	18,445	18,658	22,269	15,348	16,288	32,905	26,123	20,145
Other revenue	12,739	17,570	7,471	12,837	13,827	4,985	6,067	7,955	1,091	1,033
<b>Total Revenues</b>	<b>167,426</b>	<b>170,796</b>	<b>164,690</b>	<b>184,461</b>	<b>191,867</b>	<b>181,414</b>	<b>211,271</b>	<b>232,463</b>	<b>208,720</b>	<b>194,938</b>
<b>Expenditures</b>										
Administration <sup>1</sup>	9,412	8,291	9,961	10,806	11,501	13,192	14,721	15,799	16,527	13,954
Public Works	11,304	11,489	12,439	12,276	13,112	14,485	15,426	14,764	14,793	14,692
Planning and Community Environment <sup>3</sup>	11,966	13,474	14,761	8,628	9,722	10,568	10,332	10,911	-	-
Development Services <sup>2, 3</sup>	-	-	-	11,152	10,643	10,908	11,749	11,549	-	-
Planning and Development Services <sup>2</sup>	-	-	-	-	-	-	-	-	20,170	17,115
Office of Transportation <sup>4</sup>	-	-	-	-	-	-	-	-	4,175	3,373
Public Safety (Police and Fire)	62,418	59,537	62,028	61,447	63,784	71,164	73,916	76,344	82,173	76,282
Community Services	20,860	21,661	22,644	23,553	25,511	25,408	29,831	31,619	29,868	26,490
Library	7,072	6,902	7,340	7,980	7,960	8,953	9,120	9,288	9,988	8,528
Non-departmental	6,819	4,567	8,135	6,180	8,068	6,566	7,579	12,231	9,498	4,854
Capital Outlay	29,154	29,542	37,035	41,754	24,457	39,643	40,971	46,914	66,362	48,114
Debt service - principal payments	1,743	1,489	1,524	1,948	7,130	2,066	2,961	2,101	2,280	2,595
Debt service - interest and fiscal fees	2,757	2,659	3,196	3,404	4,266	3,032	2,956	3,398	5,025	6,147
Payment to bond refunding escrow	586	540	-	-	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>164,091</b>	<b>160,151</b>	<b>179,063</b>	<b>189,128</b>	<b>186,154</b>	<b>205,985</b>	<b>219,562</b>	<b>234,918</b>	<b>260,859</b>	<b>222,144</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>3,335</b>	<b>10,645</b>	<b>(14,373)</b>	<b>(4,667)</b>	<b>5,713</b>	<b>(24,571)</b>	<b>(8,291)</b>	<b>(2,455)</b>	<b>(52,139)</b>	<b>(27,206)</b>
<b>Other Financing Sources (Uses)</b>										
Issuance of Debt	-	-	-	-	-	-	8,970	42,297	-	101,505
Original debt premium	-	-	-	-	-	-	-	-	-	6,524
Proceeds from sale of capital assets	-	-	-	-	-	-	-	2,442	-	100
Transfers in	47,200	50,343	41,683	45,137	61,835	58,331	56,882	54,711	58,397	43,558
Transfers out	(29,782)	(33,833)	(24,175)	(29,824)	(46,492)	(44,770)	(41,085)	(43,147)	(44,552)	(25,564)
Proceeds from long term debt	3,222	21,706	-	-	-	-	-	-	-	-
Payments to refund bond escrow	(3,104)	-	-	-	-	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>17,536</b>	<b>38,216</b>	<b>17,508</b>	<b>15,313</b>	<b>15,343</b>	<b>13,561</b>	<b>24,767</b>	<b>56,303</b>	<b>13,845</b>	<b>126,123</b>
<b>Net Change in Fund Balances</b>	<b>\$ 20,871</b>	<b>\$ 48,861</b>	<b>\$ 3,135</b>	<b>\$ 10,646</b>	<b>\$ 21,056</b>	<b>\$ (11,010)</b>	<b>\$ 16,476</b>	<b>\$ 53,848</b>	<b>\$ (38,294)</b>	<b>\$ 98,917</b>
<b>Debt Service as a Percentage of Non-Capital Expenditures</b>										
	3.3%	2.6%	2.6%	2.8%	6.1%	2.5%	2.7%	2.3%	2.8%	4.6%

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

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

<sup>3</sup> In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.

<sup>4</sup> In FY20, the City established the Office of Transportation.

<sup>5</sup> Represents contributions from the Stanford University Medical Center in FY18.

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

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

<b>Fiscal Year</b>	<b>Residential</b>	<b>Commercial &amp; Industrial</b>	<b>City of Palo Alto</b>	<b>Total</b>
2012	20,328	85,895	3,352	109,575
2013	19,951	86,998	3,265	110,214
2014	18,744	88,419	3,225	110,388
2015	17,404	88,257	3,234	108,895
2016	18,191	86,715	3,127	108,033
2017	20,269	90,635	3,780	114,684
2018	22,764	100,200	4,264	127,228
2019	23,613	103,509	4,404	131,526
2020	25,466	107,335	4,286	137,087
2021	26,719	98,582	4,167	129,468

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

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

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

<sup>1</sup>The top ten customers accounted for approximately 38.1% of total kWh consumption (309,840,850 kWh) and 33.9% of revenue (\$45,815,976). The largest top ten customer accounted for 9.4% of total kWh consumption and 8.1% of revenue. The smallest top ten customer accounted for 2% of total kWh consumption and 1.9% of revenue. Revenue used to determine top ten electric customers includes metered and non-metered charges, adjustments, surcharges and discounts. Revenue does not include Utility Users Tax (UUT) and deposits.

	<b>Average Installations Billed<sup>1</sup></b>	<b>Kilowatt-hour Sales (kWh)</b>	<b>Revenue</b>
Residential	25,074	165,102,659	\$ 26,719
Commercial	3,599	501,635,237	81,235
Industrial	62	122,154,960	17,347
City of Palo Alto	143	24,991,825	4,167
<b>Total</b>	<b>28,878</b>	<b>813,884,681</b>	<b>\$ 129,468</b>

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

Source: City of Palo Alto, Utilities and Accounting Departments

**CITY OF PALO ALTO**  
**Department of Utilities**  
**Power Supply Resources**  
**For the Fiscal Year Ended June 30, 2021**

<b>Source</b>	<b>Capacity Available (MW)</b>	<b>Actual Energy (GWh)</b>	<b>Percent of Total Energy</b>
Purchased Power:			
Solar	130	311	38%
Wind	21	120	15%
Landfill Gas	14	104	13%
Hydro (NCPA)	58	49	6%
Hydro (Western)	182	246	30%
Net Forward Market Sales/Purchases	60	(30)	-4%
Net Spot Market Sales/Purchases	-	27	3%
Total	N/A <sup>1</sup>	827	100%

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

In the fiscal year ended June 30, 2021, Palo Alto's average cost of power delivered to the Palo Alto electric system was approximately \$0.10 per kWh.

Source: City of Palo Alto, Utilities Department

**CITY OF PALO ALTO**  
**Supplemental Disclosure for Water Utilities**  
**For the Fiscal Year Ended June 30, 2021**

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

City of Palo Alto  
Palo Alto Hills Golf & Country Club  
Lucille Packard Children's Hospital  
Palo Alto Unified School District  
Simon Property Group  
Stanford Hospital & Clinics  
Stanford West Management  
Veterans Administration Hospital  
Vi at Palo Alto  
VMware, Inc.

The top ten customers total consumption is 866,031 CCF with revenue of \$8,293,613. This amount accounts for approximately 18.2% of total consumption and 16.6% of total revenue. The largest top ten customer (other than the City of Palo Alto) accounted for 2.1% of consumption and 2.1% of revenue. The smallest top ten customer accounted for 0.7% of consumption and 0.6% of revenue. Revenue used to determine top ten water utility customers includes metered and non-metered charges, adjustments, surcharges and discounts. Revenue does not include Utility Users Tax (UUT) and deposits.

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

Source: City of Palo Alto, Utilities Department

**CITY OF PALO ALTO**  
**Supplemental Disclosure for Gas Utilities**  
**For the Fiscal Year Ended June 30, 2021**

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

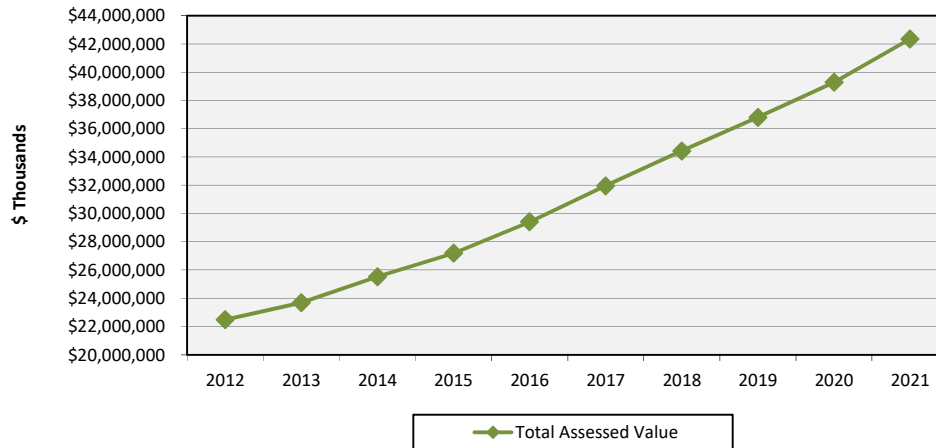
City of Palo Alto  
Genencor International  
Lucille Packard Children's Hospital  
Palo Alto Unified School District  
Space Systems/Loral, LLC  
Stanford Health Care  
Stanford Hospital & Clinics  
Stanford University  
Veterans Administration Hospital  
VMWare, Inc.

The top ten customers total consumption is 5,993,550 THM with revenue of \$7,292,737. This amount accounts for approximately 23.4% of total consumption and 18.9% of total revenue. The largest top ten customer (other than the City of Palo Alto) accounted for 8.1% of consumption and 6.3% of revenue. The smallest top ten customer accounted for 0.9% of consumption and 0.8% of revenue.

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

Source: City of Palo Alto, Utilities Department

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

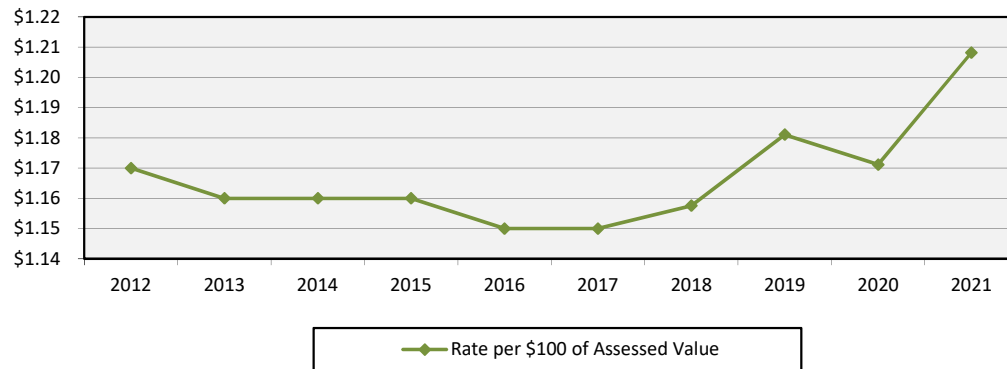


	Fiscal Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Net Local Secured Roll</b>										
Land	\$ 11,352,993	\$ 12,255,515	\$ 13,357,851	\$ 14,409,837	\$ 15,718,665	\$ 17,333,969	\$ 18,770,642	\$ 20,386,904	\$ 22,186,582	\$ 24,028,178
Improvements	11,703,597	12,381,306	12,984,735	13,633,986	14,998,502	16,752,295	18,642,970	19,845,666	21,183,768	22,706,856
Personal property	257,436	287,296	307,499	290,590	310,929	306,576	300,352	181,381	194,646	198,396
	23,314,026	24,924,117	26,650,085	28,334,413	31,028,096	34,392,840	37,713,964	40,413,951	43,564,996	46,933,430
<b>Less:</b>										
Exemptions net of state aid	(2,346,728)	(2,589,653)	(2,610,521)	(2,761,495)	(3,409,836)	(4,244,500)	(5,203,968)	(5,522,323)	(6,233,220)	(6,781,123)
<b>Total Net Local Secured Roll</b>	<b>20,967,298</b>	<b>22,334,464</b>	<b>24,039,564</b>	<b>25,572,918</b>	<b>27,618,260</b>	<b>30,148,340</b>	<b>32,509,996</b>	<b>34,891,628</b>	<b>37,331,776</b>	<b>40,152,307</b>
Public utilities	2,573	2,573	2,573	2,573	2,573	2,573	2,573	7,004	7,004	7,004
Unsecured property	1,516,837	1,355,970	1,493,922	1,622,636	1,794,921	1,803,468	1,922,170	1,902,781	1,946,680	2,194,615
<b>Total Assessed Value</b>	<b>\$ 22,486,708</b>	<b>\$ 23,693,007</b>	<b>\$ 25,536,059</b>	<b>\$ 27,198,127</b>	<b>\$ 29,415,754</b>	<b>\$ 31,954,381</b>	<b>\$ 34,434,739</b>	<b>\$ 36,801,413</b>	<b>\$ 39,285,460</b>	<b>\$ 42,353,926</b>
<b>Total Direct Tax Rate</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>

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

Source: County of Santa Clara Assessor's Office

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



Fiscal Year	Basic County Wide Levy	County Retirement Levy	County Hospital G.O. Bond (Measure A)	City Library G.O. Bond (Measure N)	Santa Clara Valley Water District	School District	Community College	Midpeninsula Open Space <sup>1</sup>	County Affordable Housing Bond (Measure A) <sup>2</sup>	Total Direct and Overlapping Rates
2012	1.00	0.0388	0.0047	0.0155	0.0064	0.0742	0.0297	-	-	1.17
2013	1.00	0.0388	0.0051	0.0129	0.0069	0.0718	0.0287	-	-	1.16
2014	1.00	0.0388	0.0035	0.0177	0.0070	0.0655	0.0290	-	-	1.16
2015	1.00	0.0388	0.0091	0.0159	0.0065	0.0657	0.0276	-	-	1.16
2016	1.00	0.0388	0.0088	0.0148	0.0057	0.0604	0.0240	0.0008	-	1.15
2017	1.00	0.0388	0.0086	0.0129	0.0086	0.0591	0.0234	0.0006	-	1.15
2018	1.00	0.0388	0.0082	0.0118	0.0062	0.0570	0.0220	0.0009	0.0127	1.16
2019	1.00	0.0388	0.0072	0.0111	0.0042	0.0858	0.0217	0.0018	0.0105	1.18
2020	1.00	0.0388	0.0069	0.0106	0.0041	0.0783	0.0208	0.0016	0.0100	1.17
2021	1.00	0.0388	0.0069	0.0096	0.0037	0.1113	0.0364	0.0015	-	1.21

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

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

Source: County of Santa Clara, Tax Rates and Information



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

Fiscal Year Ended June 30	Total Tax Levy for FY <sup>1</sup>	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years <sup>2</sup>	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2012	\$ 26,494	\$ 26,494	100%	-	\$ 26,494	100%
2013	28,742	28,742	100%	-	28,742	100%
2014	30,587	30,587	100%	-	30,587	100%
2015	34,117	34,117	100%	-	34,117	100%
2016	36,607	36,607	100%	-	36,607	100%
2017	39,381	39,381	100%	-	39,381	100%
2018	42,839	42,839	100%	-	42,839	100%
2019	47,327	47,327	100%	-	47,327	100%
2020	51,089	51,089	100%	-	51,089	100%
2021	56,572	56,572	100%	-	56,572	100%

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

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

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

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

Taxpayer	Fiscal Year 2021			Fiscal Year 2012		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Leland Stanford Jr. University	\$ 6,529,897	1	15.4%	\$ 3,035,075	1	13.5%
Google Inc.	303,697	2	0.7%			
ARE-San Francisco 80 LLC	291,000	3	0.7%			
SVF Sherman Palo Alto Corporation	143,575	4	0.3%			
ARE-San Francisco 69 LLC	141,494	5	0.3%			
395 Page Mill LLC	123,083	6	0.3%			
530 Lytton Owner LLC	119,850	7	0.3%			
Hohbach Realty Co. LP	110,392	8	0.3%			
SI 45 LLC	84,423	9	0.2%			
PA Hotel Holdings LLC	82,600	10	0.2%			
Space Systems/Loral, Inc.				226,246	2	1.0%
Arden Realty Limited Partnership				112,472	3	0.5%
Whisman Ventures, LLC				105,066	4	0.5%
ECI 2 Bayshore LLC/ECI Hamilton LLC				73,901	5	0.3%
Ronald & Ann Williams Charitable Foundation				58,804	6	0.3%
Blackhawk Parent LLC				50,196	7	0.2%
300 / 400 Hamilton Associates				41,433	8	0.2%
Thoit Bros., Inc.				31,740	9	0.1%
529 Bryant St.				31,737	10	0.1%
Total	<u>\$ 7,930,011</u>		<u>18.7%</u>	<u>\$ 3,766,670</u>		<u>16.7%</u>

**Total City Taxable Assessed Value:**

FY 2021	\$ 42,353,926
FY 2012	\$ 22,486,708

Source: California Municipal Statistics, Inc.

**CITY OF PALO ALTO**  
**Assessed Valuation and Parcels by Land Use**  
**As of June 30, 2021**

	<b>2020-2021</b>	<b>% of</b>	<b>No. of</b>	<b>% of</b>	<b>No. of</b>	<b>% of</b>
	<b>Assessed</b>	<b>Total</b>	<b>Parcels</b>	<b>Total</b>	<b>Taxable</b>	<b>Total</b>
	<b>Valuation<sup>1</sup></b>				<b>Parcels</b>	
<b>Non-Residential:</b>						
Agricultural/forest	\$ 37,697,860	0.09 %	49	0.23 %	31	0.15 %
Commercial	2,192,486,496	5.46	459	2.20	457	2.23
Professional/office	6,506,771,625	16.21	560	2.68	540	2.64
Industrial/research & development	2,295,767,267	5.72	230	1.10	229	1.12
Recreational	77,145,645	0.19	16	0.08	14	0.07
Government/social/institutional	44,228,709	0.11	115	0.55	50	0.24
Miscellaneous	<u>11,435,206</u>	<u>0.03</u>	<u>18</u>	<u>0.09</u>	<u>17</u>	<u>0.08</u>
Subtotal Non-Residential	11,165,532,808	27.81	1,447	6.92	1,338	6.53
<b>Residential:</b>						
Single family residence	23,266,022,527	57.94	15,096	72.20	15,024	73.31
Condominium/townhouse	2,863,724,800	7.13	3,151	15.07	3,146	15.35
Mobile Home	114,938	0.00	8	0.04	8	0.04
2-4 Residential units	534,551,067	1.33	497	2.38	497	2.43
5+ Residential units	<u>1,944,144,849</u>	<u>4.84</u>	<u>345</u>	<u>1.65</u>	<u>329</u>	<u>1.61</u>
Subtotal Residential	28,608,558,181	71.25	19,097	91.33	19,004	92.73
<b>Vacant Parcels</b>	<u>378,215,314</u>	<u>0.94</u>	<u>365</u>	<u>1.75</u>	<u>151</u>	<u>0.74</u>
<b>Total</b>	<u>\$ 40,152,306,303</u>	<u>100 %</u>	<u>20,909</u>	<u>100 %</u>	<u>20,493</u>	<u>100 %</u>

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

<sup>1</sup>Local secured assessed valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

**CITY OF PALO ALTO**  
**Per Parcel Assessed Valuation of Single Family Residential**  
**As of June 30, 2021**

	<b>No. of Taxable Parcels<sup>1</sup></b>	<b>2020-2021 Assessed Valuation</b>	<b>Average Assessed Valuation</b>	<b>Median Assessed Valuation</b>
Single Family Residential	15,024	\$23,266,022,527	\$1,548,590	\$1,096,758

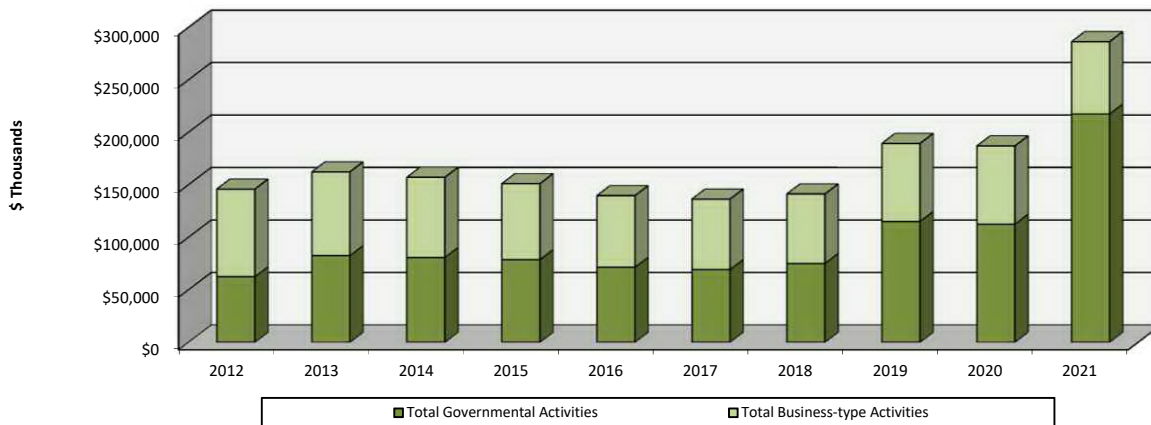
<b>2020-2021 Assessed Valuation</b>	<b>No. of Taxable Parcels<sup>1</sup></b>	<b>% of Total Parcels</b>	<b>Cumulative % of Total Parcels</b>	<b>Total Valuation</b>	<b>% of Total Valuation</b>	<b>Cumulative % of Total Valuation</b>
\$0-99,999	774	5.15 %	5.15 %	\$ 62,751,790	0.27 %	0.27 %
\$100,000-199,999	1,627	10.83	15.98	226,741,966	0.97	1.24
\$200,000-299,999	736	4.90	20.88	181,708,519	0.78	2.03
\$300,000-399,999	636	4.23	25.11	221,115,384	0.95	2.98
\$400,000-499,999	552	3.67	28.79	248,397,391	1.07	4.04
\$500,000-599,999	565	3.76	32.55	311,648,230	1.34	5.38
\$600,000-699,999	604	4.02	36.57	392,667,685	1.69	7.07
\$700,000-799,999	534	3.55	40.12	401,042,038	1.72	8.79
\$800,000-899,999	445	2.96	43.08	377,885,136	1.62	10.42
\$900,000-999,999	517	3.44	46.53	492,018,891	2.11	12.53
\$1,000,000-1,099,999	517	3.44	49.97	542,105,280	2.33	14.86
\$1,100,000-1,199,999	484	3.22	53.19	557,127,718	2.39	17.26
\$1,200,000-1,299,999	432	2.88	56.06	539,458,161	2.32	19.58
\$1,300,000-1,399,999	361	2.40	58.47	487,217,064	2.09	21.67
\$1,400,000-1,499,999	392	2.61	61.08	566,176,362	2.43	24.10
\$1,500,000-1,599,999	369	2.46	63.53	571,850,964	2.46	26.56
\$1,600,000-1,699,999	353	2.35	65.88	582,441,439	2.50	29.07
\$1,700,000-1,799,999	325	2.16	68.04	567,977,334	2.44	31.51
\$1,800,000-1,899,999	297	1.98	70.02	548,853,685	2.36	33.87
\$1,900,000-1,999,999	283	1.88	71.90	551,751,152	2.37	36.24
\$2,000,000 and greater	4,221	28.10	100.00	14,835,086,338	63.76	100.00
Total	<u>15,024</u>	<u>100.00</u> %		<u>\$ 23,266,022,527</u>	<u>100.00</u> %	

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

<sup>1</sup>Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.

Source: California Municipal Statistics, Inc.

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



	Fiscal Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Governmental Activities</b>										
Certificates of Participation	\$ 1,685	\$ 1,560	\$ 1,430	\$ 1,285	\$ 1,135	\$ 975	\$ 8,970	\$ 46,305	\$ 45,750	\$ 146,440
General Obligation Bonds	54,540	74,235	73,215	71,795	65,210	63,710	62,140	60,500	58,775	56,995
2011 Lease-Purchase Agreement	2,764	2,400	2,026	1,643	1,248	842	426	-	-	-
Add: unamortized premium	3,514	4,400	4,242	4,084	3,926	3,768	3,610	8,331	7,980	14,099
<b>Total Governmental Activities</b>	<b>62,503</b>	<b>82,595</b>	<b>80,913</b>	<b>78,807</b>	<b>71,519</b>	<b>69,295</b>	<b>75,146</b>	<b>115,136</b>	<b>112,505</b>	<b>217,534</b>
<b>Business-type Activities</b>										
Utility Revenue Bonds	65,879	63,104	60,224	57,224	54,095	50,825	47,400	43,815	40,060	36,130
Energy Tax Credits	1,000	900	800	700	600	500	400	300	200	100
State Water Resources Loan	15,900	15,109	14,309	13,500	12,681	15,034	17,711	29,589	33,808	32,288
Add: unamortized premium (discount), net	580	543	867	803	737	673	608	544	468	392
<b>Total Business-type Activities</b>	<b>83,359</b>	<b>79,656</b>	<b>76,200</b>	<b>72,227</b>	<b>68,113</b>	<b>67,032</b>	<b>66,119</b>	<b>74,248</b>	<b>74,536</b>	<b>68,910</b>
<b>Total Primary Government Outstanding Debt</b>	<b>\$ 145,862</b>	<b>\$ 162,251</b>	<b>\$ 157,113</b>	<b>\$ 151,034</b>	<b>\$ 139,632</b>	<b>\$ 136,327</b>	<b>\$ 141,265</b>	<b>\$ 189,384</b>	<b>\$ 187,041</b>	<b>\$ 286,444</b>
Percentage of Personal Income <sup>1</sup>	3.36%	3.36%	3.24%	2.94%	2.42%	2.22%	2.13%	2.64%	2.48%	3.81%
Population	65,544	66,368	66,861	66,029	66,968	66,478	66,649	67,082	67,019	66,573
Debt Per Capita	\$ 2.23	\$ 2.44	\$ 2.35	\$ 2.29	\$ 2.09	\$ 2.05	\$ 2.12	\$ 2.82	\$ 2.79	\$ 4.30

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

Sources: County of Santa Clara (assessed valuation)  
2020 Official City Data Set (population)  
California Department of Transportation Long-Term Socio-Economic Forecasts (personal income)  
Annual Financial Statements and Note 7 Long-Term Debt

**CITY OF PALO ALTO**  
**Computation of Direct and Overlapping Debt**  
**As of June 30, 2021**

**2020-2021 Assessed Value**

\$ 42,353,925,962

	<b>Total Debt</b>	<b>Percentage</b>	<b>Amount</b>
	<b>Outstanding</b>	<b>Applicable to City of Palo Alto<sup>1</sup></b>	<b>Applicable to City of Palo Alto</b>
<b><u>Direct and Overlapping Tax and Assessment Debt</u></b>			
Santa Clara County	\$ 812,685,000	7.69%	\$ 62,471,096
Foothill-DeAnza Community College District	707,932,142	21.92%	155,214,122
Palo Alto Unified School District	241,738,172	90.39%	218,499,882
Fremont Union High School District	617,160,088	0.01%	55,544
Los Gatos-Saratoga Joint Union High School District	86,585,000	0.01%	11,256
Mountain View-Los Altos Union High School District	207,011,101	0.85%	1,755,454
Cupertino Union School District	284,223,303	0.02%	48,318
Los Altos School District	164,070,000	1.13%	1,860,554
Mountain View-Whisman School District	279,115,000	0.61%	1,691,437
Saratoga Union School District	19,249,458	0.03%	5,775
Whisman School District	8,380,054	1.62%	135,505
City of Palo Alto	56,995,000	100%	56,995,000
El Camino Hospital District	116,290,000	0.07%	82,566
Midpeninsula Regional Open Space District	86,400,000	12.58%	10,872,576
City of Palo Alto Special Assessment Bonds	17,915,000	100%	17,915,000
Santa Clara Valley Water District Benefit Assessment District	57,010,000	7.69%	4,382,359
<b>Total Direct and Overlapping Tax and Assessment Debt</b>			<u>531,996,444</u>
<b><u>Direct and Overlapping General Fund Debt</u></b>			
Santa Clara County General Fund Obligations	914,957,860	7.69%	70,332,811
Santa Clara County Pension Obligations	341,399,194	7.69%	26,243,356
Santa Clara County Board of Education Certificates of Participation	2,670,000	7.69%	205,243
Foothill-DeAnza Community College District Certificates of Participation	22,085,000	21.92%	4,842,136
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	1,709,000	0.01%	222
Mountain View-Los Altos Union High School District Certificates of Participation	2,489,970	0.85%	21,115
Saratoga Union High School District Certificates of Participation	2,750,000	0.03%	825
Los Altos School District Certificates of Participation	1,954,070	1.13%	22,159
City of Palo Alto General Fund Obligations	146,440,000	100%	146,440,000
Santa Clara County Vector Control District Certificates of Participation	1,765,000	7.69%	135,676
Midpeninsula Regional Open Space Park District General Fund Obligation:	106,000,600	12.58%	13,339,116
<b>Total Gross Direct and Overlapping General Fund Debt</b>			\$ 261,582,659
Less: Santa Clara County supported obligations			<u>1,943,066</u>
<b>Total Net Direct and Overlapping General Fund Debt</b>			\$ 259,639,593
<b>Total Combined Debt</b>			<u>\$ 791,636,037</u>
	<b>Ratio to Assessed Value</b>		
<b>Total Direct Debt</b>	0.51%		\$ 217,534,000 <sup>3</sup>
<b>Total Overlapping Debt</b>	1.39%		<u>588,201,037</u>
<b>Total Direct and Overlapping Debt</b>	1.90%		<u>\$ 805,735,037</u> <sup>2</sup>

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

<sup>2</sup>Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations

<sup>3</sup>Includes unamortized premium of \$14,099,000.

Source: California Municipal Statistics, Inc.

**CITY OF PALO ALTO**  
**Computation of Legal Bonded Debt Margin**  
**As of June 30, 2021**  
**(Amounts in thousands)**

<b>Assessed Valuation:</b>	
Secured property assessed value, net of exempt real property	\$ 42,353,926
<b>Bonded Debt Limit (3.75% of Assessed Value) <sup>1</sup></b>	<u>1,588,272</u>
<b>Direct Debt:</b>	
Certificates of Participation	146,440
General Obligation bonds	<u>56,995</u>
<b>Total Direct Debt<sup>3</sup></b>	203,435
<b>Less: Amount of Debt Not Subject to Limit <sup>2</sup></b>	<u>146,440</u>
<b>Total Net Debt Applicable to Limit</b>	<u>56,995</u>
<b>Legal Bonded Debt Margin</b>	<u><u>\$ 1,531,277</u></u>

Fiscal Year	Total Assessed Value (AV)	Bonded Debt Limit (3.75% of AV)	Total Net Debt Applicable to Limit	Legal Bonded Debt Margin	Population	Total Net Debt Applicable as % of Bonded Debt Limit	Ratio of Net Debt to Assessed Value	General Bonded Debt Per Capita
2012	22,486,708	843,252	54,540	788,712	65,544	6.47%	0.0024	0.83
2013	23,693,007	888,488	74,235	814,253	66,368	8.36%	0.0031	1.12
2014	25,536,058	957,602	73,215	884,387	66,861	7.65%	0.0029	1.10
2015	27,198,127	1,019,930	71,795	948,135	66,029	7.04%	0.0026	1.09
2016	29,415,754	1,103,091	65,210	1,037,881	66,968	5.91%	0.0022	0.97
2017	31,954,381	1,198,289	63,710	1,134,579	66,478	5.32%	0.0020	0.96
2018	34,434,739	1,291,303	62,140	1,229,163	66,649	4.81%	0.0018	0.93
2019	36,801,413	1,380,053	60,500	1,319,553	67,082	4.38%	0.0016	0.90
2020	39,285,460	1,473,205	58,775	1,414,430	67,019	3.99%	0.0015	0.88
2021	42,353,926	1,588,272	56,995	1,531,277	66,573	3.59%	0.0013	0.86

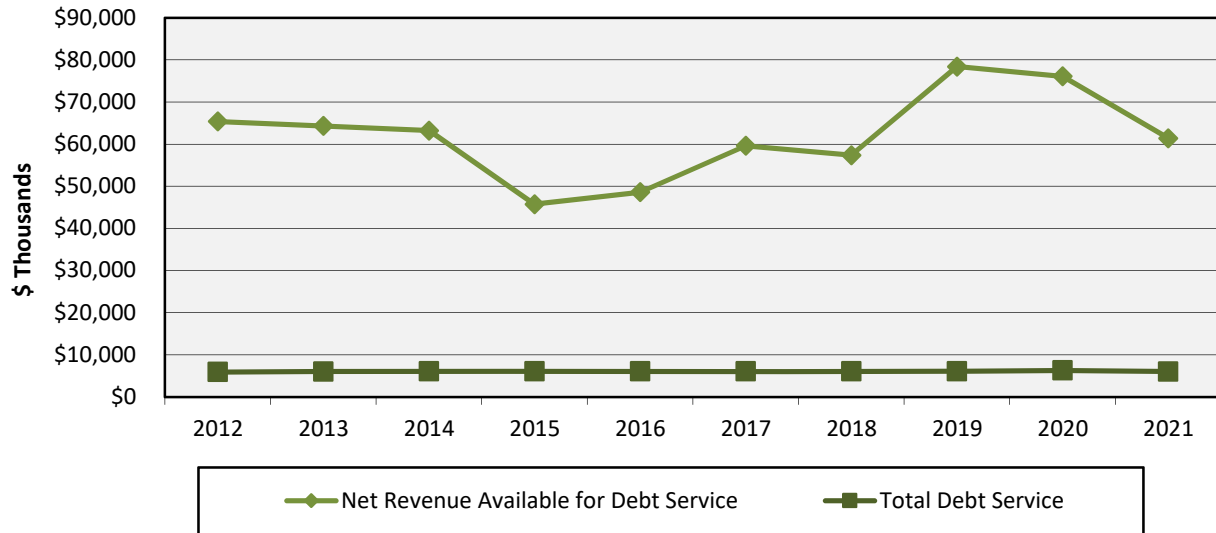
Notes: <sup>1</sup> California Government Code, Section 43605 sets the debt limit at 15% of the assessed value of all real and personal property of the City. Because this Code section was enacted when assessed value was 25% of market value, the limit is calculated at one-fourth, or 3.75%. This legal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

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

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

Source: Annual Financial Statements, Assessed Value of Taxable Property and Note 7 Long-Term Debt

**CITY OF PALO ALTO**  
**Revenue Bond Coverage**  
**Business-type Activities<sup>1</sup>**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**



Fiscal Year	Gross Revenue	Less: Direct Operating Expenses <sup>2</sup>	Net Revenue Available for Debt Service	Debt Service			Coverage Ratio
				Principal	Interest <sup>3</sup>	Total	
2012	235,160	169,777	65,383	2,945	2,959	5,904	11.07
2013	237,842	173,510	64,332	2,875	3,167	6,042	10.65
2014	239,948	176,718	63,230	2,980	3,073	6,053	10.45
2015	234,025	188,276	45,749	3,100	2,954	6,054	7.56
2016	235,386	186,793	48,593	3,230	2,823	6,053	8.03
2017	264,734	205,102	59,632	3,370	2,678	6,048	9.86
2018	288,610	231,255	57,355	3,525	2,524	6,049	9.48
2019	306,237	227,824	78,413	3,685	2,359	6,044	12.97
2020	313,317	237,223	76,094	3,855	2,419	6,274	12.13
2021	309,363	247,962	61,401	4,030	2,008	6,038	10.17

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

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

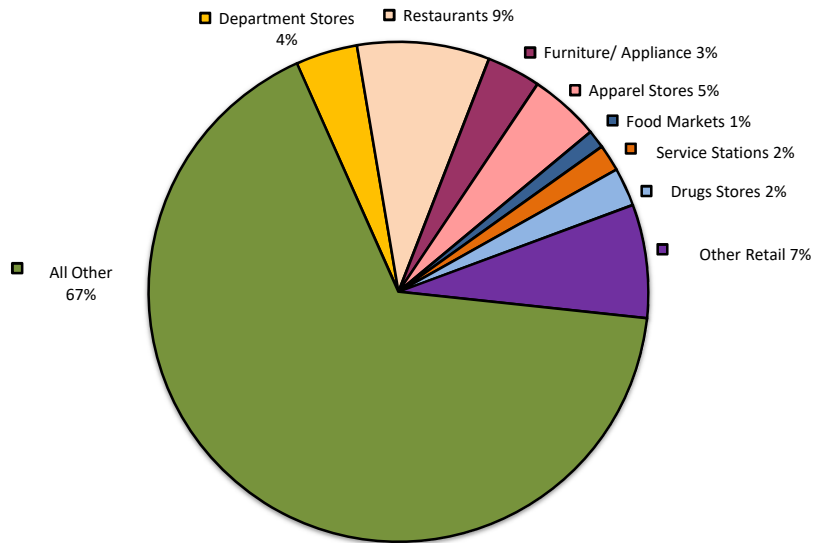
<sup>3</sup> Excludes joint venture debt service and federal interest subsidy.

Source: City of Palo Alto, Accounting Department



**CITY OF PALO ALTO**  
**Taxable Transactions by Type of Business**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**

**Fiscal Year 2021**



**ECONOMIC SEGMENT**

Fiscal Year	Department Stores	Restaurants	Furniture/ Appliance	Apparel Stores	Food Markets	Service Stations	Drug Stores	Other Retail	All Other	Total
2012	2,445	2,937	1,590	1,492	387	722	257	5,049	7,034	21,913
2013	2,478	3,160	1,465	1,656	424	765	259	4,056	13,729	27,992
2014	2,097	3,541	1,555	2,041	392	772	444	4,845	9,890	25,577
2015	2,398	3,894	1,672	1,708	435	699	265	3,674	11,253	25,998
2016	2,250	4,134	1,410	1,694	448	582	257	4,949	12,423	28,147
2017	2,036	4,079	1,513	1,794	542	502	259	3,810	14,325	28,860
2018	2,001	4,224	1,716	1,647	428	614	243	3,184	15,663	29,720
2019	1,934	4,299	1,795	1,994	409	706	810	2,245	22,254	36,446
2020 <sup>1</sup>	1,260	3,488	1,421	1,391	417	572	1,413	1,597	18,313	29,872
2021 <sup>1</sup>	1,125	2,410	980	1,283	332	489	700	2,062	18,744	28,125

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

**Sales Tax Rates for the Fiscal Year Ended June 30, 2021**

**State Rate:** 7.25%

**Special District Tax Rates:**

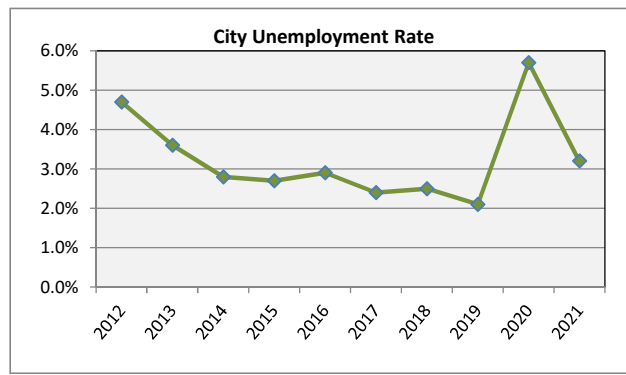
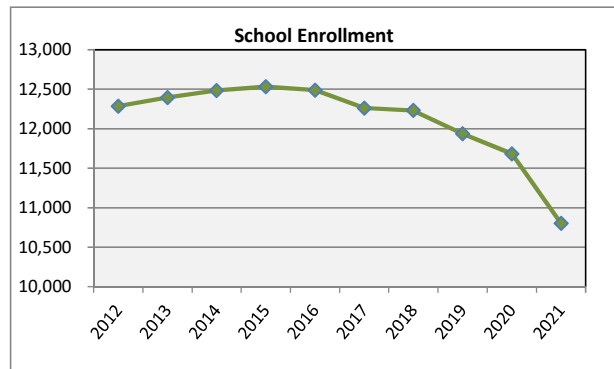
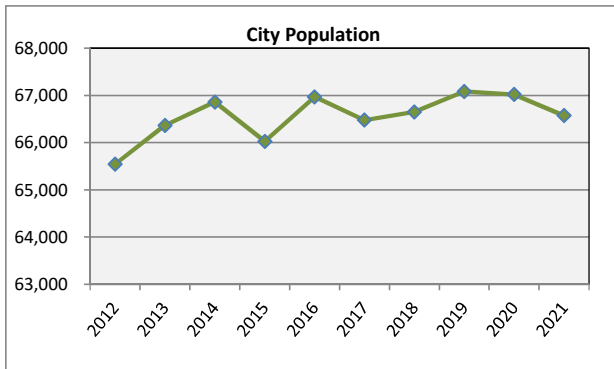
Santa Clara County Transit District (SCCT) 0.50%  
 Santa Clara County Valley Transportation Authority (SCVT) 0.50%  
 Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax (SVTB) 0.125%  
 Santa Clara Retail Transactions and Use Tax (SCCR) 0.125%  
 Silicon Valley Transportation Solutions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

**Total Sales and Use Tax Rate:** 9.000%

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

Source: California State Board of Equalization

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



Fiscal Year	City of Palo Alto Population	City of Palo Alto Unemployment Rate	City of Palo Alto School Enrollment	Santa Clara County Population	City Population as a Percentage of County Population	Santa Clara County Total Personal Income (in thousands)	Santa Clara County Per Capita Personal Income
2012	65,544	4.7%	12,286	1,813,860	3.61%	120,100,000	66,212
2013	66,368	3.6%	12,396	1,840,218	3.61%	134,000,000	72,817
2014	66,861	2.8%	12,483	1,866,208	3.58%	135,200,000	72,446
2015	66,029	2.7%	12,532	1,890,929	3.49%	147,300,000	77,898
2016	66,968	2.9%	12,488	1,919,736	3.49%	165,300,000 *	86,106 *
2017	66,478	2.4%	12,261	1,933,839	3.44%	178,500,000 *	92,303 *
2018	66,649	2.5%	12,230	1,945,829	3.43%	193,700,000 *	99,546 *
2019	67,082	2.1%	11,938	1,955,946	3.43%	209,000,000 *	106,854 *
2020	67,019	5.7%	11,683	1,961,117	3.42%	220,400,000 *	112,385 *
2021	66,573	3.2%	10,801	1,967,525	3.38%	222,200,000	112,934

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

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

State of California Employment Development Office (unemployment rate)

Palo Alto Unified School District (school enrollment)

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

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

<b>Employer</b>	<b>FY 2021<sup>1</sup></b>			<b>FY 2012</b>		
	<b>Number of Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment</b>	<b>Number of Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment</b>
Stanford Health Care <sup>2</sup>	5,500	1	4.1%	5,059	2	4.6%
Hewlett-Packard Company <sup>2</sup>	5,000	2	3.7%	2,201	5	2.0%
Stanford University <sup>2</sup>	4,060	3	3.0%	10,680	1	9.7%
Veteran's Affairs Palo Alto Health Care System	3,900	4	2.9%	3,500	4	3.2%
Stanford Children's Health/Lucile Packard Children's H	3,500	5	2.6%	4,750	3	4.3%
VMware Inc.	3,500	6	2.6%			
SAP Labs Inc.	3,500	7	2.6%			
Varian Medical Systems	3,300	8	2.5%			
Tesla Inc.	2,650	9	2.0%			
Palo Alto Medical Foundation <sup>2</sup>	2,200	10	1.6%	2,200	6	2.0%
Space Systems/Loral				1,870	7	1.7%
Wilson Sonsini Goodrich & Rosati				1,650	8	1.5%
Palo Alto Unified School District				1,362	9	1.2%
City of Palo Alto				1,017	10	0.9%
<b>Total</b>	<b>37,110</b>		<b>27.6%</b>	<b>34,289</b>		<b>31.2%</b>

**Estimated Total City Day Population:**

FY 2021	134,582
FY 2012	110,000

Notes: <sup>1</sup>Available data sources are limited and may be unreliable. The City does not affirm the validity of this data. 2021 numbers are rounded. Figures may include employees not located within City limits.  
<sup>2</sup>FY21 data was not available. Prior years data was used.

Source: 2020 Official City Data Set (total City day population); AtoZ databases; Stanford Comprehensive Plan Economic Impact Report, Stanford University Land Use Planning, "Stanford Facts 2021."

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

FUNCTIONS/PROGRAMS	Fiscal Year Ended June 30			
	2011	2012	2013	2014
<b><u>Governmental activities</u></b>				
<b>Community Services</b>				
Number of theater performances	175	175	184	108
Total hours of athletic field usage <sup>2</sup>	42,687	44,226	-	-
Number of rounds of golf	67,381	65,653	60,153	46,527
Enrollment in recreation classes (includes summer camps)	12,310	11,703	11,598	11,997
<b>Planning and Community Environment</b>				
Planning applications completed	238	204	307	310
Building permits issued	3,559	3,320	3,682	3,624
Caltrain average weekday boarding <sup>3</sup>	4,923	5,730	6,763	7,564
<b>Police</b>				
Calls for service	52,159	51,086	54,628	58,559
Total arrests	2,288	2,212	2,274	2,589
Parking citations issued	40,426	41,875	43,877	36,551
<b>Animal Services</b>				
Number of service calls	2,804	3,051	2,909	2,398
Number of animals handled	3,323	3,379	2,675	2,480
<b>Fire</b>				
Calls for service	7,555	7,796	7,904	7,829
Number of fire incidents	165	186	150	150
Number of fire inspections <sup>4</sup>	1,807	1,654	2,069	1,741
<b>Library</b>				
Total number of cardholders	53,246	60,283	51,007	46,950
Total number of items in collection	314,101	306,160	277,749	361,103
Total checkouts	1,476,648	1,559,932	1,512,975	1,364,872
<b>Public Works</b>				
Street resurfacing (lane miles)	29	40	36	36
Number of potholes repaired	2,986	3,047	2,726	3,418
Sq. ft. of sidewalk replaced or permanently repaired	71,174	72,787	82,118	74,051
Number of trees planted	150	143	245	148
Tons of materials recycled or composted	56,586	51,725	47,941	49,594
<b><u>Business-type activities</u></b>				
<b>Electric</b>				
Number of customer accounts	29,708	29,545	29,299	29,338
Residential MWH consumed	160,318	160,604	156,411	153,190
<b>Gas</b>				
Number of customer accounts	23,816	23,915	23,659	23,592
Residential therms consumed	11,476,609	11,522,999	10,834,793	10,253,776
<b>Water</b>				
Number of customer accounts	20,248	20,317	20,043	20,037
Residential water consumption (CCF)	2,442,415	2,513,595	2,521,930	2,496,549
<b>Wastewater collection</b>				
Number of customer accounts	22,320	22,421	22,152	22,105
Millions of gallons processed	8,652	8,130	7,546	7,186

Notes: <sup>1</sup>Ten most recent years available.

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

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

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

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

Fiscal Year Ended June 30					
2015	2016	2017	2018	2019	2020
172	161	171	160	175	191
47,504	65,723	71,431	65,443	67,608	-
42,048	42,573	-	6,790	54,619	42,429
12,586	12,974	11,649	10,652	13,553	12,997
335	383	365	376	327	262
3,844	3,492	2,970	3,105	2,918	2,476
8,294	9,622	9,994	9,977	10,400	-
59,795	53,870	53,901	55,480	54,479	48,394
3,273	2,988	2,745	2,678	2,388	1,568
41,412	37,624	33,661	37,441	33,496	20,261
2,013	2,421	1,674	1,737	2,550	3,081
2,143	2,184	2,211	2,077	2,125	2,361
8,548	8,882	9,153	8,981	8,843	8,102
135	150	155	189	133	140
1,964	2,806	5,476	9,581	10,984	9,602
51,792	57,307	54,676	56,159	68,034	66,530
429,460	461,292	427,548	472,895	485,157	515,032
1,499,406	1,400,926	1,524,614	1,538,118	1,467,038	1,048,676
31	39	39	31	10	7
2,487	3,435	3,449	2,835	2,929	1,761
120,776	115,293	17,275	38,557	66,662	48,847
305	387	319	411	403	346
50,546	56,438	60,582	57,744	55,900	51,852
29,065	29,304	29,616	29,475	29,616	29,849
145,284	150,112	148,986	149,526	146,036	153,976
23,461	23,467	23,637	23,395	23,664	23,770
8,537,754	9,535,377	10,233,669	10,261,276	9,794,177	10,382,762
20,061	19,994	20,213	20,000	20,012	20,608
2,052,176	1,696,383	1,856,879	2,120,588	2,058,663	2,241,461
21,990	22,016	22,216	21,979	22,216	22,410
6,512	6,387	7,176	6,464	6,958	6,294

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

FUNCTION/PROGRAM	Fiscal Year Ended June 30				
	2012	2013	2014	2015	2016
<b>Public Safety</b>					
Fire:					
Fire Stations Operated	7	7	7	7	7
Police:					
Police Stations	1	1	1	1	1
Police Patrol Vehicles	30	30	30	30	30
<b>Community Services</b>					
Acres - Downtown/Urban Parks <sup>2</sup>	157	157	157	157	-
Acres - Open Space <sup>2</sup>	3,744	3,744	3,744	3,752	-
Acres - Parks and Preserves <sup>2</sup>	-	-	-	-	3,921
Acres - Open Space <sup>2</sup>	-	-	-	-	4,489
Acres - Municipal Golf Course <sup>2</sup>	-	-	-	-	-
Parks and Preserves <sup>3</sup>	36	36	36	36	36
Golf Course (see above for acreage)	1	1	1	1	1
Tennis Courts	51	51	51	51	51
Athletic Center	4	4	4	4	4
Community Centers	4	4	4	4	4
Theaters	3	3	3	3	3
Cultural Center/Art Center	1	1	1	1	1
Junior Museum and Zoo	1	1	1	1	1
Swimming Pools	1	1	1	1	1
Nature Center	3	3	3	3	3
<b>Libraries</b>					
Libraries	5	5	5	5	5
<b>Public Works:</b>					
Number of Trees Maintained	31,890	31,923	31,757	31,652	31,699
<b>Electric Utility<sup>1</sup></b>					
Miles of Overhead Lines	223	222	223	223	222
Miles of Underground Lines	245	246	249	262	268
<b>Water Utility</b>					
Miles of Water Mains	234	233	236	236	235
<b>Gas Utility</b>					
Miles of Gas Mains	210	210	214	211	209
<b>Waste Water</b>					
Miles of Sanitary Sewer Lines	217	217	217	217	216

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

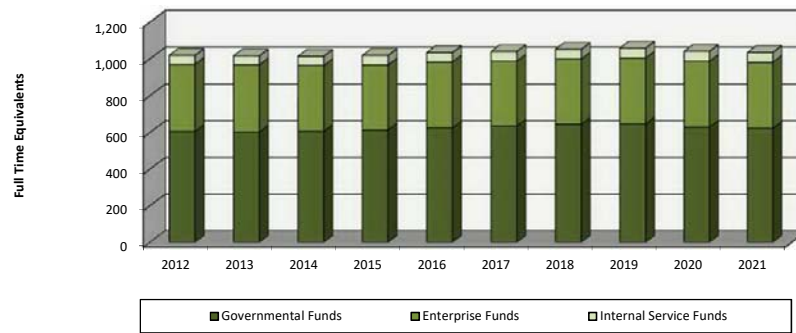
<sup>2</sup>Beginning in 2016 park acreage is sourced from the Official City Data Set. The discrepancy between FY16 and FY17 is because FY16 numbers were derived off GIS parcels identified as parks or zoned in the Open Space Zoning District. For FY17, Council approved Parks Master Plan numbers were used.

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

Source: City of Palo Alto

Fiscal Year Ended June 30				
2017	2018	2019	2020	2021
7	7	7	7	7
1	1	1	1	1
30	30	30	29	29
-	-	-	-	-
-	-	-	-	-
174	174	174	174	174
4,030	4,030	4,030	4,018	4,018
181	181	181	181	181
36	36	36	36	36
1	1	1	1	1
51	51	51	50	50
4	4	4	4	4
4	4	4	4	4
3	3	3	3	3
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
3	3	3	3	3
5	5	5	5	5
31,712	31,849	31,815	31,819	31,716
223	222	220	220	221
264	272	274	279	287
236	236	236	236	236
210	210	210	210	211
216	216	216	216	216

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



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

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b><u>Governmental Funds</u></b>										
General Fund:										
Administration	83	85	83	84	86	87	89	87	86	85
Community Services	74	74	74	76	77	78	79	78	76	75
Development Services <sup>5</sup>	-	-	-	38	38	36	36	36	-	-
Fire	122	119	116	107	107	109	109	98	98	98
Library	41	41	42	44	48	48	48	48	47	47
Office of Emergency Services <sup>4</sup>	-	-	3	3	3	3	3	3	3	3
Planning and Community Environment <sup>5</sup>	43	48	49	28	31	32	30	30	-	-
Planning and Development Services <sup>5</sup>	-	-	-	-	-	-	-	-	62	62
Office of Transportation <sup>6</sup>	-	-	-	-	-	-	-	-	6	6
Police	157	154	155	155	155	155	155	155	149	149
Public Works <sup>1</sup>	56	57	56	53	54	56	55	51	49	51
<b>Subtotal General Fund</b>	<b>576</b>	<b>578</b>	<b>578</b>	<b>588</b>	<b>599</b>	<b>604</b>	<b>604</b>	<b>586</b>	<b>576</b>	<b>576</b>
All Other Funds:										
Capital Projects Fund	24	26	27	27	28	31	34	33	36	36
Special Revenue Fund	2	2	9	10	9	10	9	10	11	11
<b>Total Governmental Funds</b>	<b>602</b>	<b>606</b>	<b>614</b>	<b>625</b>	<b>636</b>	<b>645</b>	<b>647</b>	<b>629</b>	<b>623</b>	<b>623</b>
<b><u>Enterprise Funds</u></b>										
Public Works <sup>2</sup>	115	104	99	100	95	99	101	101	101	101
Utilities <sup>3</sup>	251	254	255	258	256	255	257	257	257	257
<b>Total Enterprise Funds</b>	<b>366</b>	<b>358</b>	<b>354</b>	<b>358</b>	<b>351</b>	<b>354</b>	<b>358</b>	<b>358</b>	<b>358</b>	<b>358</b>
<b><u>Internal Service Funds</u></b>										
Printing and Mailing	2	2	2	2	2	2	2	2	2	2
Technology	30	31	32	32	34	35	36	36	36	36
Vehicle Replacement	16	17	17	17	17	16	16	16	16	16
<b>Total Internal Service Funds</b>	<b>48</b>	<b>50</b>	<b>51</b>	<b>51</b>	<b>53</b>	<b>53</b>	<b>54</b>	<b>54</b>	<b>54</b>	<b>54</b>
<b>Total</b>	<b>1,016</b>	<b>1,014</b>	<b>1,019</b>	<b>1,034</b>	<b>1,040</b>	<b>1,052</b>	<b>1,059</b>	<b>1,041</b>	<b>1,035</b>	<b>1,035</b>

Notes: <sup>1</sup>Fleet and Facilities Management

<sup>2</sup>Refuse, Storm Drainage, Wastewater Treatment

<sup>3</sup>Electric, Fiber Optics, Gas, Wastewater Collection, Water Fund

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

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

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

Numbers adjusted for rounding purposes.

Source: City of Palo Alto - Fiscal Year 2021 Adopted Operating Budget



# *Americans with Disabilities Act Statement*



IN COMPLIANCE WITH  
AMERICANS WITH DISABILITIES ACT (ADA) OF 1990,  
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For information contact:  
ADA Coordinator  
City of Palo Alto  
250 Hamilton Ave  
(650) 329-2550  
[ADA@cityofpaloalto.org](mailto:ADA@cityofpaloalto.org)



CITY OF  
**PALO  
ALTO**

# PALO ALTO

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

**CITY OF PALO ALTO**

250 HAMILTON AVENUE,  
PALO ALTO, CA 94301

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**APPENDIX D**

**CITY INVESTMENT POLICY**

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# **CITY OF PALO ALTO**

## **Investment Policy**

### **Fiscal Year 2021-22**

#### **(Adopted June 21, 2021)**

#### **INTRODUCTION**

The City of Palo Alto invests its pooled idle cash according to State of California law and the charter of the City of Palo Alto. In particular, the City follows “The Prudent Investor Standard” cited in the State Government Code (Section 53600.3). Under this standard, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

#### **INVESTMENT PHILOSOPHY**

The basic principles underlying Palo Alto's investment philosophy is to ensure the safety of public funds, provide that sufficient money is always available to meet current expenditures, and achieve a reasonable rate of return on its investments.

The City's preferred and chief practice is to buy securities and to hold them to their date of maturity rather than to trade or sell securities prior to maturity. The City may, however, elect to sell a security prior to its maturity should there be a significant financial need. If securities are purchased and held to their maturity date, then any changes in the market value of those securities during their life will have no effect on their principal value. Under a buy and hold philosophy, the City is able to protect its invested principal. The economy, the money markets, and various financial institutions (such as the Federal Reserve System) are monitored carefully to make prudent investments and to assess the condition of the City's portfolio.

#### **INVESTMENT OBJECTIVES**

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest

rate risk.

a) Credit risk is the risk that an obligation will not be paid and a loss will result. The City will seek to minimize this risk by:

- Limiting investment to the safest types of securities or minimum credit quality rating as listed in the “Authorized Investment” section
- Diversifying its investments among the types of securities that are authorized under this investment policy

b) Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investor’s portfolio. For example, an investor with large holdings in long-term bonds has assumed significant interest rate risk because the value of the bonds will fall if interest rates rise. The City can minimize this risk by:

- Buying and holding its securities until maturity
- Structuring the investment portfolio so that securities mature to meet cash flow requirements

To further achieve the objective of safety, the amount that can be invested in all investment categories, excluding obligations of the U.S. Government and its agencies, is limited either as a percentage of the portfolio or by a specific dollar amount. These limits are defined under the “Authorized Investments” section.

2. **Liquidity:** Liquidity is the second most important objective of the investment program. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by maintaining a portion of the portfolio in liquid money market mutual funds or local government investment pools. In addition, the City will maintain one month’s net cash needs in short term and/or liquid investments and at least \$50 million shall be maintained in securities maturing in less than two years. Although the City’s practice is to buy and hold securities to maturity, since all possible cash demands cannot be anticipated, the portfolio will consist of securities with active secondary or resale markets should the need to sell a security prior to maturity arises.
3. **Yield:** Yield on the City’s portfolio is last in priority among investment objectives. The investment portfolio shall be designed to obtain a market rate of return that reflects the authorized investments, risk constraints, and liquidity needs outlined in the City’s investment policy. Compared to similar sized cities, the City of Palo Alto should be able to take advantage of its relatively large reserve balances to achieve higher yields through long-term investments. In addition, the City will strive to maintain the level of investment of idle funds as close to 100 percent as possible.

## **ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RESPONSIBILITIES**

In addition to and subordinate to the Safety, Liquidity, and Yield investment objectives,

investments that support sound environmental, social and governance (ESG) objectives are also considered. While the City's portfolio is not classified as an ESG portfolio, investments in entities that support community well-being through practices that emphasize safe and environmentally sound objectives; fair labor practices; and equality of rights regardless of sex, race, age, disability, or sexual orientation, is encouraged. Direct investments in entities that manufacture tobacco products, firearms, and engage in direct production or drilling of fossil fuels is discouraged.

This section applies to new investments (after November 5, 2018) only and does not require divestment of existing investments. Investments in Certificates of Deposit (CDs) and Negotiable Certificates of Deposit are exempt from the ESG investing objective.

### **SCOPE**

- A. This investment policy shall apply to all financial assets of the City of Palo Alto as accounted for in the Annual Comprehensive Financial Report (ACFR), including but not limited to the following funds:
  - 1. General Fund
  - 2. Special Revenue Funds
  - 3. Debt Service Funds
  - 4. Capital Project Fund
  - 5. Enterprise Funds
  - 6. Internal Service Funds
  - 7. Trust and Agency Funds
- B. The policy does not cover funds held by the California Public Employees Retirement System (CalPERS), the California Employers' Retiree Benefit Trust (CERBT), Deferred Compensation programs (e.g. ICMA, Hartford), the Authority for California Cities Excess Liability (ACCEL), and the Public Agency Retirement Services (PARS) Section 115 Irrevocable Trust.
- C. Investments of bond proceeds shall be governed by the provisions of the related bond indentures.

### **GENERAL INVESTMENT GUIDELINES**

- 1. The maximum stated final maturity of individual securities in the portfolio should be ten years.
- 2. A maximum of 30 percent of the par value of the portfolio shall be invested in securities with maturities beyond five years.
- 3. The City shall maintain a minimum of one month's net cash needs in short term and/or liquid investments.
- 4. At least \$50 million shall be maintained in securities maturing in less than two (2)

years.

5. Should the ratio of the market value of the portfolio to the book value of the portfolio fall below 95 percent, the Administrative Services Department will report this fact to the City Council within a reasonable time frame and evaluate whether there is any risk of holding any of the securities to maturity.
6. Commitments to purchase securities newly introduced on the market shall be made no more than three (3) working days before pricing.
7. Whenever possible, the City will obtain three or more quotations on the purchase or sale of comparable securities and take the higher yield on purchase or higher price on sale. This rule will not apply to new issues, which are purchased at market no more than three (3) working days before pricing, as well as to LAIF, City of Palo Alto bonds, money market accounts and mutual funds, all of which shall be evaluated separately.
8. Where the Investment Policy specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. A later increase or decrease in a percentage resulting from a change in the portfolio's assets or values shall not constitute a violation of that restriction. As soon as possible, percentage limitations will be restored as investments mature in each category.

## **AUTHORIZED INVESTMENTS**

The California Government Code (Sections 53600 et seq.) governs investment of City funds. The following investments are authorized:

1. **U.S. Government Securities** (e.g. Treasury notes, bonds and bills) Securities that are backed by the full faith and credit of the United States
  - a) There is no limit on purchase of these securities.
  - b) Securities will not exceed 10 years maturity.
  - c) All purchased securities must have an explicit or a de facto backing of the full faith and credit of the U.S. Government.
2. **U.S. Government Agency Securities** – Obligations issued by the Federal Government agencies (e.g. Federal National Mortgage Association, etc.).
  - a. There is no limit on purchase of these securities except for:
    - Callable and Multi-step-up securities provided that:
      - The potential call dates are known at the time of purchase
      - The interest rates at which they “step-up” are known at the time



- of purchase
- The entire face value of the security is redeemed at the call date
- No more than 25 percent of the par value of the portfolio

b. Securities will not exceed 10 years maturity.

3. **California State, California Local Government Agencies, and other United States State Bonds**

- a) Having at time of investment a minimum Double A (AA/Aa2) rating as provided by a nationally recognized rating service (e.g. Moody's, Fitch, and/or Standard and Poor's).
- b) May not exceed 40 percent of the par value of the portfolio.
- c) Investments include:
  - i) Registered state warrants or treasury notes or bonds of the State of California and bonds, notes, warrants, or other evidences of indebtedness of any local agency within California, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the state or local agency or by a department, board, agency, or authority of the state or local agency.
  - ii) Registered treasury notes or bond of any of the 49 United States in addition to the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency or authority of any of the other 49 United States, in addition to the State of California.

4. **Certificates of Deposit (CD)** - A debt instrument issued by a bank for a specified period of time at a specified rate of interest. Purchase of CD's are limited to:

- a) May not exceed 20 percent of the par value of the portfolio.
- b) No more than 10 percent of the par value of the portfolio in collateralized CDs in any institution.
- c) Purchase collateralized deposits only from federally insured large banks that are rated by a nationally recognized rating service (e.g. Moody's, Fitch, and/or Standard and Poor's).
- d) For non-rated banks, deposit should be limited to amounts federally insured (FDIC). – See Appendix C

- e) Rollovers are not permitted without specific instruction from authorized City staff.
5. **Banker's Acceptance Notes (BA)** – Bills of exchange or time drafts drawn on and accepted by commercial banks. Purchase of banker's acceptances are limited to:
- a) No more than 30 percent of the par value of the portfolio.
  - b) Not to exceed 180 days maturity.
  - c) No more than \$5 million with any one institution.
6. **Commercial Paper** - Short-term unsecured obligations issued by banks, corporations, and other borrowers. Purchases of commercial paper are limited to:
- a) Having highest letter or numerical rating as provided for by a nationally recognized rating service (e.g. Moody's, Fitch, and/or Standard and Poor's).
  - b) No more than 15 percent of the par value of the portfolio.
  - c) Not to exceed 270 days maturity.
  - d) No more than \$3 million or 10 percent of the outstanding commercial paper of any one institution, whichever is lesser.
7. **Local Agency Investment Fund (LAIF)** – A State of California managed investment pool may be used up to the maximum permitted by California State Law.
8. **Short-Term Repurchase Agreements (REPO)** – A contractual agreement between a seller and a buyer, usually of U.S. government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and, usually, at a stated time. Purchases of REPO's must:
- a) Not to exceed 1 year.
  - b) Market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities.
  - c) A Master Repurchase agreement must be signed with the bank or dealer.
9. **Money Market Deposit Accounts** – Liquid bank accounts which seek to maintain a net asset value of \$1.00.

10. **Mutual Funds** which seek to maintain a net asset value of \$1.00 and which are limited essentially to the above investments and further defined in note 9 of Appendix A
  - a) No more than 20 percent of the par value of the portfolio.
  - b) No more than 10 percent of the par value with any one institution.
11. **Negotiable Certificates of Deposit (NCD)** issued by nationally or state-chartered banks and state or federal savings institutions and further defined in note 11 of Appendix A. Purchases of negotiable certificates of deposit:
  - a) May not exceed 20 percent of the par value of the portfolio.
  - b) No more than \$5 million in any one institution.
12. **Medium-Term Corporate Notes** – Issued by corporation organized and operating within the United States or by depository institutions licensed by the United States or any state and operating with the United States.
  - a) Not to exceed 5 years maturity.
  - b) Securities eligible for investment shall have a minimum rating of AA or Aa2 from a nationally recognized rating service (e.g. Moody's, Fitch, and/or Standard & Poor's).
  - c) No more than 10 percent of the par value of the portfolio.
  - d) No more than \$5 million of the par value may be invested in securities of any single issuer, other than the U.S. Government, its agencies and instrumentality.
  - e) If securities owned by the City are downgraded by Moody's, Fitch, or Standard & Poors to a level below AA or Aa2, it shall be the City's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.
13. **Supranational Organizations Securities** – Supranational organizations refer to International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and Inter-American Development Bank (IADB).
  - a. Securities will not exceed 5 years maturity.
  - b. No more than 20 percent of the par value of the portfolio.
  - c. No more than 10 percent of the par value with any one institution.
  - d. Securities eligible for investment shall have a minimum rating of AA or Aa2 from a nationally recognized rating service (e.g. Moody's, Fitch, and/or Standard & Poor's).

- e. Limited to United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by IBRD, IFC, and IADB.

Appendix A provides a more detailed description of each investment vehicle and its security and liquidity features. Most of the City's short-term investments will be in securities which pay principal upon maturity, while long-term investments may be in securities that periodically repay principal, as well as interest. Most of the City's investments will be at a fixed rate. However, some of the investments may be at a variable rate, so long as that rate changes on specified dates in pre-determined increments.

### **PROHIBITED INVESTMENTS:**

Includes all investments not specified above, and in particular:

1. Reverse repurchase agreements
2. Derivatives, as defined in Appendix B

Appendix B provides a more detailed description of each investment, which is prohibited, for City investment.

### **AUTHORIZED INVESTMENT PERSONNEL**

Idle cash management and investment transactions are the responsibility of the Administrative Services Department. The Administrative Services Department is under the control of the Director of Administrative Services (Director), as treasurer, who is subject to the direction and supervision of the City Manager.

The Assistant Directors of Administrative Services (Assistant Director), who reports to the Director, are authorized to make all investment transactions allowed by the Statement of Investment Policy. The Assistant Director may authorize the Manager of Treasury, Debt & Investments and/or Senior Management Analyst (Manager and/or Analyst) to enter into investments within clearly specified parameters.

The Investment function is under the supervision of the Assistant Director. The Assistant Director is charged with the responsibility to manage the investment program (portfolio), which includes developing and monitoring the City's cash flow model and developing long-term revenue and financing strategies and forecasts.

The Manager and/or Analyst are subject to the direction and supervision of the Assistant Director. The Manager and/or Analyst assist the Assistant Director, in the purchase and sale of securities. The Manager and/or Analyst also prepare the quarterly report, and record daily all investment transactions as to the type of investment, amount, yield, and maturity. Cash flow projections are prepared as needed.

In all circumstances, approval from the Director of Administrative Services is required before selling

securities from the City's portfolio. The Manager and/or Analyst may also transfer no more than a total of \$10 million a day from the City's general account to any one financial institution, without the prior approval of the Assistant Director.

No other person has authority to make investment transactions without the written authority of the Director or Assistant Director of Administrative Services.

### **USE OF BROKERS AND DEALERS**

The Administrative Services Department maintains a list of acceptable dealers. A dealer acts as a principal in security transactions, selling securities from and buying securities for their own position. A dealer must have:

- a) At least three years experience operating with California municipalities;
- b) Maintain an inventory of trading securities of at least \$10 million; and
- c) Be approved by the Assistant Director before being added to the City's list of approved dealers; including individual traders or agents representing a dealer:

A dealer will be removed from the list should there develop a history of problems to include: failure to deliver securities as promised, failure to honor transactions as quoted, or failure to provide accurate information.

### **SAFEKEEPING AND CUSTODY**

All securities shall be delivered to the City's safekeeping custodian and held in the name of the City of Palo Alto, with the exception of the following investments:

- a) Certificates of deposit, which may be held by the City itself.
- b) City shares in pooled investment funds, under contract.
- c) Mutual funds
- d) Local Agency Investment Fund (LAIF)

## **POLICY REVIEW AND REPORTING ON INVESTMENTS**

Monthly, the Administrative Services Department will review performance in relation to Council adopted Policy. Quarterly, the Department will report to Council investment activity, including: the portfolio's performance in comparison to policy, explain any variances from policy, provide any recommendations for policy changes, and discuss overall compliance with the City's Investment Policy. In addition, the Department will provide Council with:

- a) A detailed list of all securities, investments and monies held by the City, and
- b) Report on the City's ability to meet expenditure requirements over the next six months.

Annually, the Administrative Services Department will present a Proposed Statement of Investment Policy, to include the delegation of investment authority, to the City Council for review during the annual budget process. All proposed changes in policy must be approved by the Council prior to implementation.

Adopted by City Council October 22, 1984	Amended by City Council June 11, 2001
Monthly reporting effective January 1985	Amended by City Council June 17, 2002
Amended and Adopted by City Council June 24, 1985	Amended by City Council June 17, 2003
Amended by City Council December 2, 1985	Amended by City Council June 28, 2004
Amended by City Council June 23, 1986	Amended by City Council June 20, 2005
Amended by City Council June 22, 1987	Amended by City Council June 12, 2006
Amended by City Council August 8, 1988	Amended by City Council June 11, 2007
Amended by City Council November 28, 1988	Amended by City Council June 09, 2008
Amended by City Council June 26, 1989	Amended by City Council June 15, 2009
Amended by City Council May 14, 1990	Amended by City Council June 28, 2010
Amended by City Council June 24, 1991	Amended by City Council June 20, 2011
Amended by City Council June 22, 1992	Amended by City Council June 18, 2012
Amended by City Council June 23, 1993	Amended by City Council June 03, 2013
Amended by City Council June 20, 1994	Amended by City Council June 16, 2014
Amended by City Council June 19, 1995	Amended by City Council June 15, 2015
Amended by City Council June 24, 1996	Amended by City Council June 13, 2016
Amended by City Council June 23, 1997	Amended by City Council June 27, 2017
Amended by City Council January 26, 1998	Amended by City Council November 5, 2018
Amended by City Council June 22, 1998	Amended by City Council June 24, 2019
Amended by City Council June 28, 1999	Adopted by City Council June 22, 2020
Amended by City Council June 19, 2000	Amended by City Council June 21, 2021

## APPENDIX A

### EXPLANATION OF PERMITTED INVESTMENTS

1. **U.S. Government Securities:** United States Treasury notes, bonds, bills, or certificates of indebtedness or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
2. **U.S. Government Agency Securities:** U.S. Government Agency Obligations include the securities of the Federal National Mortgage Association (FNMA), Federal Land Banks (FLB), Federal Intermediate Credit Banks (FICB), banks for cooperatives, Federal Home Loan Banks (FHLB), Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), Student Loan Marketing Association (SLMA), Small Business Administration (SBA), Federal Farm Credit (FFC), and Federal Agricultural Mortgage Corporation (FAMC or FMAC). Federal Agency securities are debt obligations that essentially result from lending programs of the Government. Federal agency securities differ from other types of securities, as well as among themselves. Their characteristics depend on the issuing agency. It is possible to distinguish three types of issues: (A) participation certificates (pooled securities), (B) Certificates of interest (pooled loans), (C) notes, bonds, and debentures. The securities of a few agencies are explicitly backed by the full faith and credit of the U.S. Government. All other issues purchased by the City have the de facto backing from the federal government, and it is highly unlikely that the government would let any agency default on its obligations.
3. **Certificates of Deposit:** A certificate of deposit (CDs) is a receipt for funds deposited in a bank, savings bank, or savings and loan association for a specified period of time at a specified rate of interest. Denominations are \$250,000 and up. The first \$250,000 of a certificate of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC), if the deposit is with a bank or savings bank, or the Savings Association Insurance Fund (SAIF), if the deposit is with a savings and loan. CDs with a face value in excess of \$250,000 can be collateralized by U.S. Government Agency and Treasury Department securities or first mortgage loans. Government securities must be at least 110 percent of the face value of the CD collateralized in excess of the first \$250,000. The value of first mortgages must be at least 150 percent of the face value of the CD balance insured in excess of the first \$250,000. Generally, CDs are issued for more than 30 days and the maturity can be selected by the purchaser.
4. **Bankers' Acceptance:** A Banker's Acceptance (BA) is a negotiable time draft or bill of exchange drawn on and accepted by a commercial bank. Acceptance of the draft irrevocably obligates the bank to pay the bearer the face amount of the draft at maturity. BAs are usually created to finance the import and export of goods, the shipment of goods within the United States and storage of readily marketable staple commodities. In over 70 years of usage in the United States, there has been no known instance of principal loss to any investor in BAs. In addition to the guarantee by the accepting bank, the transaction is identified with a specific commodity. Warehouse receipts verify that the pledged commodities exist, and, by definition, these commodities are readily marketable. The sale of the underlying goods generates the necessary funds to liquidate the indebtedness.

BAs enjoy marketability since the Federal Reserve Bank is authorized to buy and sell prime BAs with maturities of up to nine months. The Federal Reserve Bank enters into repurchase agreements in the normal course of open market operations with BA dealers.

As are sold at a discount from par. An acceptance is tied to a specific loan transaction; therefore, the amount and maturity of the acceptance is fixed.

5. **Commercial Paper:** Commercial paper notes are unsecured promissory notes of industrial corporations, utilities, and bank holding companies. Interest is discounted from par and calculated using actual number of days on a 360-day year. The notes are in bearer form, with maturities up to 270 days selected by the purchaser, and denominations generally start at \$100,000. There is a small secondary market for commercial paper notes and an investor may sell a note prior to maturity.

Commercial paper notes are backed by unused lines of credit from major banks. Some issuer's notes are insured, while some are backed by irrevocable letters of credit from major banks. State law limits a City to investments in United States corporations having assets in excess of five hundred million dollars with an "A" or higher rating by a nationally recognized rating service for the issuer's debentures. Cities may not invest more than 25 percent of idle cash in commercial paper.

6. **Local Agency Investment Fund Demand Deposit:** The Local Agency Investment Fund (LAIF) was established by the State to enable treasurers to place funds in a pool for investments. The City is limited to an investment of the amount allowed by LAIF (currently \$75 million). LAIF has been particularly beneficial to those jurisdictions with small portfolios. Palo Alto uses this fund for short-term investment, liquidity, and yield.
7. **Repurchase Agreements:** A Repurchase Agreement (REPOS) is not a security, but a contractual arrangement between a financial institution or dealer and an investor. The agreement normally can run for one or more days. The investor puts up funds for a certain number of days at a stated yield. In return, the investor takes title to a given block of securities as collateral. At maturity, the securities are repurchased and the funds repaid, plus interest. Usually, amounts are \$500,000 or more, but some REPOS can be smaller.
8. **Money Market Deposit Accounts:** Money Market Deposit Accounts are market-sensitive bank accounts, which are available to depositors at any time, without penalty. The interest rate is generally comparable to rates on money market mutual funds, though any individual bank's rate may be higher or lower. These accounts are insured by the Federal Deposit Insurance Corporation or the Savings Association Insurance Fund.



9. **Mutual Funds:** Mutual funds are shares of beneficial interest issued by diversified management companies, as defined by Section 23701 M of the Revenue and Taxation Code. To be eligible for investment, these funds must:
- a) Attain the highest ranking in the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services; or
  - b) Have an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations, as authorized by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code, and with assets under management in excess of five hundred million dollars; and
  - c) Invest solely in those securities and obligations authorized by Sections 53601 and 53635 of the California Government Code. Where the Investment Policy of the City of Palo Alto may be more restrictive than the State Code, the Policy authorizes investments in mutual funds that shall have minimal investment in securities otherwise restricted by the City's Policy. Minimal investment is defined as less than 5 percent of the mutual fund portfolio; and
  - d) The purchase price of shares of beneficial interest purchased shall not include any commission that these companies may charge.
  - e) Have a net asset value of \$1.00.
10. **Callable Securities and Multi-Step-ups:** Callable securities are defined as fixed interest rate government agency securities that give the issuing agency the option of returning the invested funds at a specific point in time to the purchaser. Multi-step-ups are government agency securities in which the interest rate increases ("steps-up") at preset intervals, and which also have a callable option that allows the issuing agency to return the invested funds at a preset interval. Callable and multi-step-ups are permitted, provided that:
- the potential call dates are known at the time of purchase;
  - the interest rates at which they "step-up" are known at the time of purchase; and
  - the entire face value of the security is redeemed at the call date.

11. **Negotiable Certificates of Deposit (NCD):** NCDs are large-dollar-amount, short-term certificate of deposit. Such certificates are issued by large banks and bought mainly by corporations and institutional investors. They are payable either to the bearer or to the order of the depositor, and, being negotiable, they enjoy an active secondary market, where they trade in round lots of \$5 million. Although they can be issued in any denomination from \$100,000 up, the typical amount is \$1 million also called a Jumbo Certificate of Deposit.

State law prohibits the investment of local agency funds in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or any person with investment decision making authority in the administrative, manager's, budget, auditor-controller's, or treasurer's offices of the local agency also serves on the board of directors, other credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificate of deposit.

12. **Medium-Term Corporate Notes:** All corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. According to California Government Code Section 53601, "Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. Purchase of medium-term notes shall include other instruments authorized by this section and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section."
13. **Supranational Securities:** California Government Code Section 53601 defines allowable supranational securities as United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the International Finance Corporation, and Inter-American Development Bank. Supranationals are well capitalized and in most cases have strong credit support from contingent capital calls from their member countries. Section 53601 was amended effective January 1, 2015 to allow local agencies to invest in the senior debt obligations of these three supranational issuers which are eligible for purchase and resale within the United States. These entities were established with the purpose of ending poverty and raising the standard of living around the world through sustainable economic growth.

- a) The supranationals are international organization owned by member countries. These are:

- **International Bank for Reconstruction and Development (IBRD or World Bank)**, a member of the World Bank Group, provides direct loans and guarantees to sovereigns and government-backed projects
- **International Finance Corporation (IFC)**, a member of the World Bank Group, supports the creation and growth of private companies through direct lending and equity investment, attracting third party capital, and providing advisory services
- **Inter-American Development Bank (IADB)**, a member of the

Inter-American Development Bank Group, provides loans, grants, and guarantees to sovereigns in Latin America and the Caribbean

- b) Additional characteristics shared by the IBRD, IFC, and IADB include:
- Headquartered in Washington, D.C. with the United States as the largest shareholder of each organization
  - Rated AAA/Aaa by S&P and Moody's

## **APPENDIX B**

### **EXPLANATION OF PROHIBITED INVESTMENTS**

1. **Reverse Repurchase Agreements:** A Reverse Repurchase Agreement (Reverse REPO) is a contractual agreement by the investor (e.g. local agency) to post a security it owns as collateral, and a bank or dealer temporarily exchanges cash for this collateral, for a specific period of time, at an agreed-upon interest rate. During the period of the agreement, the local agency may use this cash for any purpose. At maturity, the securities are repurchased from the bank or dealer, plus interest.

California law contains a number of restrictions on the use of Reverse REPOS by local agencies.

2. **Derivatives:** A derivative is a financial instrument created from, or whose value depends on (is derived from), the value of one or more underlying assets or indices. The term "derivative" refers to instruments or features, such as collateralized mortgage obligations, forwards, futures, currency and interest rate swaps, options, caps and floors. Except for those callable and multi-step-up securities as described under Permitted Investments, derivatives are prohibited.

Certain derivative products have characteristics which could include high price volatility, liquid markets, products that are not market-tested, products that are highly leveraged, products requiring a high degree of sophistication to manage, and products that are difficult to value.

According to California law, a local agency shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages.

## **APPENDIX C**

### **GLOSSARY OF INVESTMENT TERMS**

**AGENCIES:** Federal agency and instrumentality securities.

**ASKED:** The price at which securities are offered.

**BID:** The price offered by a buyer of securities (when one sells securities, one asks for a bid). See “*Offer*”.

**BROKER:** A person or institution that conducts investment transactions on behalf of the buyer and seller of the investment and earns a commission on the transaction.

**COLLATERAL:** Securities, evidence of deposit, or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR):** The official annual report for the City of Palo Alto. It includes combined financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles and pronouncements set forth by the Governmental Accounting Standards Board (GASB). The ACFR also includes supporting schedules that are necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed statistical section.

**COUPON:** The annual rate of interest that a bond’s issuer promises to pay the bondholder on the bond’s face value or the certificate attached to a bond evidencing interest due on a payment date.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

**DEBENTURE:** A bond secured only by the general credit of the issuer.

**DELIVERY VERSUS PAYMENT:** There are two methods of delivery of securities: (1) delivery versus payment (DVP); and (2) delivery versus receipt (DVR). DVP is delivery of securities with an exchange of money for the securities. DVR is delivery of securities with an exchange of a signed receipt for the securities.

**DISCOUNT:** The difference between the acquisition cost of a security and its value at maturity when quoted at lower than face value. A security that sells below original offering price shortly after sale, is also is considered to be at a discount.

**DISCOUNT SECURITIES:** Non-interest-bearing money market instruments that are issued at a discount and that are redeemed at maturity for full face value (e.g., U.S. Treasury Bills).

**DIVERSIFICATION:** Dividing investment funds among a variety of securities that offer independent returns.

**FEDERAL AGRICULTURAL MORTGAGE CORPORATION (“FAMC” or “FMAC”):** A federal agency established in 1988 to provide a secondary market for farm mortgage loans. Informally called *Farmer Mac*.

**FEDERAL CREDIT AGENCIES:** Agencies of the Federal Government that were established to supply credit to various classes of institutions and individuals (e.g., S&Ls, small business firms, students, farmers, farm cooperatives, and exporters).

**FEDERAL DEPOSIT INSURANCE CORPORATION (“FDIC”):** A federal agency that insures all types of deposits received at an insured bank, including deposits in a checking account, negotiable order of withdrawal (NOW) account, savings account, money market deposit account (MMDA) or time deposit such as a certificate of deposit (CD). FDIC insurance covers depositors' accounts at each insured bank, dollar-for-dollar, including principal and any accrued interest through the date of the insured bank's closing, up to the insurance limit.

The FDIC does not insure money invested in stocks, bonds, mutual funds, life insurance policies, annuities or municipal securities, even if these investments are purchased at an insured bank. The FDIC does not insure U.S. Treasury bills, bonds or notes, but these investments are backed by the full faith and credit of the United States government.

The standard maximum deposit insurance amount is described as the “SMDIA” in FDIC regulations. The SMDIA is \$250,000 per depositor, per insured bank.

**FEDERAL FUNDS RATE:** The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL HOME LOAN BANKS (“FHLB”):** Government-sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions, and insurance companies. The mission of the FHLBs is to liquefy the housing-related assets of its members, who must purchase stock in their District Bank.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (“FNMA”):** FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**FEDERAL OPEN MARKET COMMITTEE (“FOMC”):** The FOMC consists of seven

members of the Federal Reserve Board and five of the 12 Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of government securities in the open market, as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., 12 regional banks, and about 5,700 commercial banks that are members of the system.

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (“GNMA” or “Ginnie Mae”):** Securities that influence the volume of bank credit that is guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. A security holder is protected by the full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FMHM mortgages. The term “pass-throughs” is often used to describe Ginnie Maes.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow, and reasonable amount can be done at those quotes.

**LOCAL GOVERNMENT AGENCY:** A local government agency is any city, county, city and county, district, or other local governmental body or corporation, including the California State Universities (CSU) and University of California (UC) systems, K-12 schools and community colleges empowered to expend public funds.

**LOCAL GOVERNMENT INVESTMENT FUND (“LAIF”):** Monies from local governmental units may be remitted to the California State Treasurer for deposit in this special fund for the purpose of investment.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establish each party’s rights in the transactions. A master agreement will often specify, among other things, the right of the buyer (lender) to liquidate the underlying securities in the event of default by the seller (borrower).

**MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.

**MONEY MARKET:** The market in which short-term debt instruments (e.g., bills, commercial paper, and bankers’ acceptances) are issued and traded.

**OFFER:** The price asked by a seller of securities (when one buys securities, one asks for an offer). See “*Asked*” and “*Bid*”.

**OPEN MARKET OPERATIONS:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank, as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**PORTFOLIO:** A collection of securities that an investor holds.

**PRIMARY DEALER:** A group of government securities dealers that submit daily reports of market activity and positions, and monthly financial statements to the Federal Reserve Bank of New York, and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) -- registered securities broker-dealers, banks, and a few unregulated firms.

**PRUDENT INVESTOR RULE:** An investment standard cited in the California Government Code Section 53600 et seq. Under this standard, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

**QUALIFIED PUBLIC DEPOSITORIES:** A financial institution that: (1) does not claim exemption from the payment of any sales, compensating use, or ad valorem taxes under the laws of this state; (2) has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability; and (3) has been approved by the Public Deposit Protection Commission to hold public deposits.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price.

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

**SECONDARY MARKET:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**SECURITIES AND EXCHANGE COMMISSION:** An agency created by Congress to administer securities legislation for the purpose of protecting investors in securities transactions.

**STRUCTURED NOTES:** Notes issued by instrumentalities (e.g., FHLB, FNMA, SLMA) and by corporations, that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) in their debt structure. The market performance of structured notes is affected by fluctuating interest rates; the volatility of imbedded options; and shifts in the yield curve.



**SUPRANATIONALS:** International institutions that provide development financing, advisory services and/or financial services to their member countries to achieve the overall goal of improving living standards through sustainable economic growth. The California Government Code Section 53601 allows local agencies to purchase the United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB).

**TIME CERTIFICATE OF DEPOSIT:** A non-negotiable certificate of deposit, which cannot be sold prior to maturity.

**TREASURY BILLS:** A non-interest-bearing discount security that is issued by the U.S. Treasury to finance the national debt. Most T-bills are issued to mature in three months, six months, or one year.

**TREASURY BONDS:** Long-term, coupon-bearing U.S. Treasury securities that are issued as direct obligations of the U.S. Government, and having initial maturities of more than 10 years.

**TREASURY NOTES:** Medium-term, coupon-bearing U.S. Treasury securities that are issued as direct obligations of the U.S. Government, and having initial maturities of two to 10 years.

**YIELD:** The rate of annual income return on an investment, expressed as a percentage.

**YIELD-TO-CALL (YTC):** The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

**YIELD-TO-MATURITY:** The current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity.

**ZERO-COUPON SECURITIES:** Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

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## APPENDIX E

### FORM OF OPINION OF BOND COUNSEL

[Letterhead of Jones Hall, A Professional Law Corporation]

[Closing Date]

City Council  
City of Palo Alto  
250 Hamilton Avenue  
Palo Alto, CA 94301

**OPINION:**      \$35,795,000\* City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022A (Tax-Exempt)

                 \$13,645,000\* City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022B (Federally Taxable)

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Members of the City Council:

We have acted as bond counsel to the City of Palo Alto (the “City”) in connection with the issuance by the City of the general obligation bonds captioned above, dated the date hereof (the “Bonds”). In such capacity, we have examined such law and such certified proceedings, certifications, opinions and other documents as we deem necessary to render this opinion.

The Bonds are issued pursuant to a resolution (the “Resolution”) of the City Council of the City adopted on May 2, 2022.

Regarding questions of fact material to our opinion, we have relied on representations of City contained in the Resolution, and on the certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation. Regarding certain questions of law material to our opinion, we have assumed the correctness of certain legal conclusions contained in the written opinions of the City Attorney, and others, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1.        The City is a duly created and validly existing municipal corporation and charter city with the power to adopt the Resolution, perform the agreements on its part contained therein, and issue the Bonds.
2.        The Resolution constitutes a valid and binding obligation City, enforceable against the City.
3.        The Bonds have been duly authorized and executed by City, and are valid and binding general obligations of the City.
4.        The City is obligated and authorized under the laws of the State of California to levy ad valorem taxes, without limit as to rate or amount (except with respect to certain personal property which is taxable at limited rates), upon the taxable property in the City for the payment when due of the principal of and interest on the Bonds.

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\* Preliminary, subject to change.

5. The interest on the Refunding General Obligation Bonds (Election of 2008), Series 2022A (Tax-Exempt) ("Tax-Exempt Bonds") is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Tax-Exempt Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Tax-Exempt Bonds.

6. The City does not intend for the interest on the Refunding General Obligation Bonds (Election of 2008), Series 2022B (Federally Taxable) to be excluded from gross income for federal income tax purposes.

7. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Moreover, our opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service or any court; rather, our opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations, opinions, and covenants referenced above. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

## APPENDIX F

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) is executed and delivered by the CITY OF PALO ALTO (the “City”) in connection with the issuance of \$35,795,000\* City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022A (the “2022A Bonds”) and the \$13,645,000\* City of Palo Alto Refunding General Obligation Refunding Bonds, Series 2022B (Federally Taxable) (the “2022B Bonds” and, with the 2022A Bonds, the “2022 Bonds”). The 2022 Bonds are being issued pursuant to a resolution adopted by the City Council of the City on May 2, 2022 (the “Resolution”). Pursuant to Section 10.11 of the Resolution, the City covenants and agree as follows:

Section 1. Definitions. In addition to the definitions set forth above and in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 1, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Annual Report Date*” means the March 31 after the end of the City’s Fiscal Year.

“*Dissemination Agent*” shall mean, initially, the City, or any successor Dissemination Agent designed in writing by the City and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

“*Fiscal Year*” means any twelve-month period beginning on July 1 in any year and extending to the next succeeding June 30, both dates inclusive, or any other twelve-month period selected and designated by the City as its official fiscal year period under a Certificate of the City filed with the Trustee.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the City in connection with the issuance of the 2022 Bonds.

“*Participating Underwriter*” means the original underwriters of the 2022 Bonds.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

“*Significant Events*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the 2022 Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2- 12(b)(5).

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\* Preliminary, subject to change.

### Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2022, with the report for fiscal year 2020-21 provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate; *provided, however*, that the first Annual Report shall consist solely of the Official Statement. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Significant Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City in a timely manner shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) The City's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided for in Section 3 above, financial information and operating data with respect to the City for preceding fiscal year, substantially similar to that provided in the following tables in the Official Statement:

- (i) Assessed Valuations of Taxable Property;
- (ii) Assessed Valuation and Parcels by Land Use;
- (iii) Per Parcel Assessed valuation of Single Family Homes;
- (iv) Summary of Ad Valorem Tax Rates;
- (v) Tax Levies and Collections; and
- (vi) Largest Local Secured Taxpayers.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

#### Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following Significant Events with respect to the 2022 Bonds:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (vii) Modifications to rights of security holders, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person;
- (xiii) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) The incurrence of a financial obligation of the City or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City or other obligated person, any of which affect security holders, if material; or

(xvi) A default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City or other obligated person, any of which reflect financial difficulties.

(b) Whenever the City obtains knowledge of the occurrence of a Significant Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Significant Event. Notwithstanding the foregoing, notice of Significant Events described in subsection (a)(viii) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected 2022 Bonds under the Resolution.

(c) The City acknowledges that the events described in subparagraphs (a)(ii), (a)(vii), (a)(viii) (if the event is a bond call), (a)(x), (a)(xiii), (a)(xiv) and (a)(xv) of this Section 5 contain the qualifier “if material.” The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the City determines the event’s occurrence is material for purposes of U.S. federal securities law. The City intends that the words used in paragraphs (xv) and (xvi) and the definition of “financial obligation” to have the meanings ascribed thereto in SEC Release No. 34-83885 (August 20, 2018).

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(xii) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2022 Bonds. If such termination occurs prior to the final maturity of the 2022 Bonds, the City shall give notice of such termination in the same manner as for a Significant Event under Section 5(b).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days’ written notice to the City.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 2022 Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2022 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and



(c) the proposed amendment or waiver either (i) is approved by holders of the 2022 Bonds in the manner provided in the Resolution for amendments to the Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the 2022 Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

The Dissemination Agent shall not be obligated to enter into any amendment increasing or affecting its duties or obligations hereunder.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Significant Event under Section 5(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Significant Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Significant Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Significant Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the 2022 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) Article VIII of the Resolution is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Resolution. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Paying Agent thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Certificate holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2022 Bonds.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the 2022 Bonds and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: [Closing Date]

CITY OF PALO ALTO

By \_\_\_\_\_  
Authorized Officer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Palo Alto, California

Name of Issues: City of Palo Alto Refunding General Obligation Bonds (Election of 2008), Series 2022A,  
and City of Palo Alto Refunding General Obligation Refunding Bonds, Series 2022B  
(Federally Taxable)

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Issues as required by the Continuing Disclosure Certificate, dated [Closing Date], furnished by the City in connection with the Issue. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

Date: \_\_\_\_\_

CITY OF PALO ALTO,  
as Dissemination Agent

By \_\_\_\_\_  
Authorized Officer

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## APPENDIX G

### BOOK-ENTRY SYSTEM

*The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2022 Bonds, payment of principal of and interest on the 2022 Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the 2022 Bonds, confirmation and transfer of beneficial ownership interests in the 2022 Bonds and other Bond related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the 2022 Bonds is based solely on information furnished by DTC to the City which the City believes to be reliable, but the City and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2022 Bonds. The 2022 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the 2022 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2022 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2022 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2022 Bonds, except in the event that use of the book-entry system for the 2022 Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of the 2022 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC

nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2022 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2022 Bonds, such as tenders, defaults, and proposed amendments to the 2022 Bonds documents. For example, Beneficial Owners of the 2022 Bonds may wish to ascertain that the nominee holding the 2022 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2022 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2022 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the 2022 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service as depository with respect to the 2022 Bonds at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-Entry Only transfers through DTC (or a successor securities depository). In that event, the Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

In the event that (a) DTC determines not to continue to act as securities depository for the 2022 Bonds, or (b) the City determines that DTC shall no longer act and delivers a written certificate to the Paying Agent to that effect, then the City will discontinue the Book-Entry System with DTC for the 2022 Bonds. If the City determines to replace DTC with another qualified securities depository, the City will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the 2022 Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Resolution. If the City fails to identify another qualified securities depository to replace the incumbent securities depository for the 2022 Bonds, then the 2022 Bonds shall no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the 2022 Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the 2022 Bonds will be made available in physical form, (ii) payment of principal of and interest on the 2022 Bonds will be payable upon surrender thereof at the trust office of the Paying Agent identified in the Resolution, and (iii) the 2022 Bonds will be transferable and exchangeable as provided in the Resolution.

*The City and the Paying Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the 2022 Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of and interest on the 2022 Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Resolution; (iv) any consent given or other action taken by DTC as registered owner; or (v) any other matter arising with respect to the 2022 Bonds or the Resolution. The City and the Paying Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of and interest on the 2022 Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The City and the Paying Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the 2022 Bonds or any error or delay relating thereto.*

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