



**City Council
Special Meeting
Monday, January 24, 2022
5:00 PM
Virtual Meeting**
Additional materials added to Agenda

**Pursuant to AB 361 this City of Palo Alto City Council Meeting
Will Be Held by Virtual Teleconference Only**

To prevent the spread of Covid-19, this meeting will be held by virtual teleconference only, with no physical location. Members of the public who wish to participate by computer or phone can find the instructions below and at the end of this agenda.

HOW TO PARTICIPATE

VIRTUAL PARTICIPATION

[CLICK HERE TO JOIN](https://cityofpaloalto.zoom.us/j/362027238) (<https://cityofpaloalto.zoom.us/j/362027238>)
Meeting ID: 362 027 238 Phone:1(669)900-6833

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

TIME ESTIMATES

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

PUBLIC COMMENTS

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

HEARINGS REQUIRED BY LAW

Applicants and/or appellants may have up to ten minutes at the outset of the public discussion to make their remarks and up to three minutes for concluding remarks after other members of the public have spoken.

CALL TO ORDER

STUDY SESSION (5:00 PM - 6:00 PM)

Public Comment Presentation

1. Report from the Human Relations Commission regarding their project titled "100 Community Conversations on Race and the Lived Experience in Palo Alto"

AGENDA CHANGES, ADDITIONS AND DELETIONS

PUBLIC COMMENT (6:00 PM - 6:25 PM)

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

CONSENT CALENDAR (6:25 PM - 6:30 PM)

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

Q&A

2. Approve Minutes from the January 10, 2022 City Council Meeting
3. Approval of General Services Contract with Denali Water Solutions, LLC for Sludge Hauling Services in an Amount Not to Exceed \$2,427,084 for a 3-Year Term ending March 30, 2025, from the Wastewater Treatment Enterprise Fund

Q&A

4. Review and Acceptance of Annual Status Report on Development Impact Fees for Fiscal Year 2021

Q&A

5. Acceptance of the Macias Gini & O'Connell Audit of the City of Palo Alto's Financial Statements as of June 30, 2021 and the Management Letter; Approval of the FY 2021 Annual Comprehensive Financial Report (ACFR); and Amendments to the FY 2021 Budget in Various Funds

6. Adoption of a Resolution Declaring Weeds to be a Public Nuisance and Setting January 24, 2022 for a Public Hearing for Objections to the Proposed Weed Abatement

Q&A

7. Adoption of a Resolution Scheduling the City Council Summer Break and Winter Closure for 2022
8. Adoption of a Resolution Authorizing Use of Teleconferencing for Council Meetings During Covid-19 State of Emergency
9. SECOND READING: Adopt a Park Improvement Ordinance for the Replacement of the Palo Alto Flood Basin Tide Gate Structure in the City's Baylands (FIRST READING: January 10, 2022 PASSED: 7-0)

10. SECOND READING: Adoption of an Interim Ordinance Amending Titles 16, 18 and 21 in Response to Senate Bills 9 and 478, Including Amendment to the City's Affordable Housing Requirements for SB 9 Projects. CEQA Status: This Action is not Considered a Project or is Exempt from CEQA in Accordance With Government Code Sections 66411.7(n) and 65852.21(j) or Section 15061 of the State CEQA Guidelines. (FIRST READING: January 10, 2022 PASSED: 7-0)

CITY MANAGER COMMENTS

Presentation

ACTION ITEMS

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

11. Discuss Polling Results, Analysis, and Community and Stakeholder Engagement Plan; Recommend Further Refined Parameters for a Possible Local Tax Ballot Measure for November 2022 Election (Business License Tax and Utility Tax Proposals); and Direct Staff on Related Items such as Community and Stakeholder Engagement Plan (7:00 PM - 9:30 PM)

A Revised Staff Report Has been Added to this Packet

Q&A Public Comment Presentation

12. Public Hearing: Adoption of Ordinance Clarifying Ambiguities in Height Transitions and Amending the Setback for the RM-40 Zone District (9:30 PM - 10:30 PM)

COUNCIL MEMBER QUESTIONS, COMMENTS, ANNOUNCEMENTS

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

ADJOURNMENT

INFORMATION REPORTS

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

13. City of Palo Alto's Energy Risk Management Report for the Second Half of Fiscal Year 2021 (January 1, 2021-June 30, 2021)
14. Informational Report on the GreenWaste of Palo Alto Certificate of End Use & Traceability Report and Update on Council Direction Regarding Recyclable Materials.
15. Contracts Awarded by the City Manager and Procurement Officer
16. Update on the Implementation of the Deconstruction and Construction Materials Management Ordinance (Ordinance 5472/ Palo Alto Municipal Code Title 5, Chapter 5.24).

OTHER INFORMATION

Standing Committee Meetings

None the week of January 24, 2022

Public Letters to Council

Schedule of Meetings

AMENDED AGENDA ITEMS

Items that have been added/modified from the original publication of the agenda are listed below. Any corresponding materials are appended to the end of the initial packet. If full items have been added to the Agenda, they will be denoted with a number starting with AA, meaning Amended Agenda item.

11. Discuss Polling Results, Analysis, and Community and Stakeholder Engagement Plan; Recommend Further Refined Parameters for a Possible Local Tax Ballot Measure for November 2022 Election (Business License Tax and Utility Tax Proposals); and Direct Staff on Related Items such as Community and Stakeholder Engagement Plan
A Revised Staff Report Has been Added to this Packet – [click here](#)

PUBLIC COMMENT INSTRUCTIONS

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

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

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



City of Palo Alto City Council Staff Report

(ID # 13841)

Meeting Date: 1/24/2022

Title: Report from the Human Relations Commission regarding their project titled "100 Community Conversations on Race and the Lived Experience in Palo Alto"

From: City Manager

Lead Department: Community Services

Representatives of the Human Relations Commission (HRC) will be presenting a summary of their recent project; "100 Community Conversations on Race and the Lived Experience in Palo Alto" (Attachment A) for discussion with the Council.

This is a Study Session, therefore there will be no recommended actions; however, the Commission will be requesting Council feedback on their possible next steps.

Background

The Human Relations Commission received a report on the 100 Community Conversations on Race initiative at their [August 12, 2021](#) meeting and discussed next steps. HRC representatives at the meeting expressed their desire to present the findings of the project to the full Council.

Information on this project was first presented to the Policy and Services Committee on [September 14, 2021](#). The Policy and Services Committee made a recommendation to the Council that included further areas of consideration which included "support the HRC work regarding the 100 Conversations." The September report also includes an update on the City's greater Race and Equity/Social Justice work.

Attachments:

- **Attachment1.a:** Attachment A - 100 Conversations Memo - 12-17-21-revised

TO: City Council

FROM: Kaloma Smith, Chair
Human Relations Commission

DATE: December 17, 2021

RE: 100 CONVERSATIONS ABOUT RACE --STATUS AND OVERVIEW

Background

In response to a June 15, 2020 staff report on an initial framework and workplan to address systemic racism, Council directed the Human Relations Commission (HRC) to produce a report on "Black and Brown Palo Alto - History and Current Experience." HRC Chair Kaloma Smith and then Vice Chair Valerie Stinger convened to research and write the report, with much community input, and the final report was presented to the Council on January 19, 2021. From the written and spoken retelling of personal lived experiences, four themes evolved. These were:

- Persistent
 - *We have been doing this a long time and we still don't get it done.*
- Consistent aggressions
 - *It's the DAILY microaggressions that hurt.*
- Positive role models absent
 - *Young people don't have positive role models in their curriculum or around town.*
- Housing denied
 - *Awareness of de jure discrimination limiting access to housing as well as evidence of de facto discrimination*

As the HRC believed that the Commission could play a vital role in addressing issues related to equity and inclusion in the community, they identified an action plan that centered on partnering with 100 community leaders to lead community circle conversations that would meet to discuss race and belonging over the next 12 months. They committed to making this moment a pivot point and commit to be a model for diversity, inclusion, equity, and belonging.

Project Planning

Buoyed by the success of Palo Alto Unified School District's successful community-wide *21 Day Racial Equity Challenge*, Chair Smith and Stinger began the work to create the framework for the 100 Conversations. With key contributions from Inclusion and Diversity leaders at Stanford University, including Mohammed Soriano-Bilal, Associate Dean and Director, Office of Inclusion, Belonging, and Intergroup Communication, Inclusion and Diversity Education and Shalia Kotadia, Director of Culture and Inclusion,

School of Medicine and additional input and review of a Community Advisory Committee consisting of representation from the City, community, academia, the arts, and nonprofit, a detailed [Toolkit](#) was created, [website launched](#) outreach conducted to recruit conversation leaders, and training sessions held to equip each conversation leader to utilize the toolkit.

The Conversations were designed with this context:

- Vision
 - Palo Alto is a model for equity and belonging, vested in diversity, inclusion, and equity, and committed to putting words into action
- Goals
 - Engage in brave and honest conversation
 - Identify personal behaviors and make a personal commitment to change
 - Identify root causes and specific local initiatives/policy to reshape our community and address structural racism
- Inclusion Criteria
 - Live, work, study, worship, shop in Palo Alto
 - The aim was to generate many different ideas. Diversity was sought; representative sampling, which is relevant for quantification and projections, was not sought.
- Conversations were to be held between May 25 and Juneteenth. That time frame was extended to allow for graduations, summer vacations, and year end activity.

Implementation

The Conversations were structured in two parts, allowing for participants to give value to the process as well as the time answering questions.

- *'Experience with Race'*, the first part, used open-ended questions and activities. The host could tailor the mix for the group. Situations and statements were prepared to promote deep and brave discussion. The examples were local and current.
- *'Ideas for Building a Climate of Belonging'* were sought in the second part. Discussion was specific to Palo Alto. Different groups were at different stages in their understanding and reaction to local racism. Some had very specific ideas; others, more general. Taken together, they give a sense of Palo Alto's thinking.

To date, 33 conversation circles have taken place attended by over 212 individuals. Most conversation circles had between 4-8 participants, a few were larger. 100 conversations was an aspirational goal. Sixty-four people were trained to be hosts. Some held conversations but did not record them. Some chose to co-host with another

or chose not to host. Their reasons were anecdotally that they thought they would have help recruiting, that their neighborhood group was more advanced in their study of race, that the focus was too narrowly focused on race excluding questions of Asian experience or anti-semitism; and some ran out of time.

It was noted that the period that the conversations took place was a busy one, competing with graduations, year-end school activities and summer vacations and while many local individuals whose efforts were pulled towards working for an extension of the Statewide eviction moratorium that was scheduled to end on June 30th. While advertised by the City, program volunteers and discussion leaders, there was not a greater push due to limited volunteer capacity and budget.

Outcomes and Key Learnings

The conversations offered an opportunity for those who participated to have a significant conversation on race. Approximately 30% of attendees had never had a conversation about race in Palo Alto before.

Outcomes of the conversations were categorized into three areas: 1) Learnings 2) Experiences and 3) Emotions. An activity called Four Corners in which one had to reflect on a situation from the perspective of the target/victim, committer, supporter (one who speak up) and bystander was found to be especially helpful in understanding the impact of racist acts.

Two outcomes are particularly important. First, many attendees expressed concern that classicism may compound the problems of racism faced by Black, Brown and Asians in Palo Alto. Racism is further compounded by increasing economic disparity and a lost sense of place. Second, white privilege, which so frames the lived experience of Black and Brown citizens, is barely understood by the dominant local population.

Some other learnings, emotions, and experiences, which were important to the discussions, were captured in the summaries. These include:

- Experiences in Palo Alto reflected a changing Palo Alto, where economic disparity compounds racial privilege and lessens a sense of place; DIE programs that were not uniformly staffed and funded; and a Police Department that was often, but not consistently sensitive to the community.
- Racist incidents, for example in rental, job or automobile negotiations
- Experiences with and profiling by the Police Department that have led to distrust among some people of color (POC). Racist treatment from realtors, educators and general community members who resorted to cultural stereotypes and ignorance
- Experience of neighborhood watch
- Inadequacy of under-resourced DIE programs

- Experience of surveillance
- Strong emotions including anger and sadness, but also led to the start of understanding
- Dismay that we still face so much racism, 'even' in Palo Alto
- Differing expectations of teachers
- Learnings centered on white privilege

While each of the conversations lasted about 90 minutes, participants left with a sense of personal commitment to continue to work on issues of equity and inclusion in Palo Alto and shared these during the survey process. Individuals expressed their personal commitment to understand more deeply the lived experience of Black and Brown Palo Alto, to advocate change and to learn helpful behaviors. More specifically, this included commitments to:

- Be in further conversation with each other on this important topic, to continue the dialogue about local, systemic racism
- Advocate for progress, improve justice in policing
- Building Community, push Council to create real community; change how one welcomes marginalized communities
- Learning and understanding, lobby our educational institutions to present an accurate picture of our history
- Being an ally, learn and read more to understand how people of different races feel; learn how to be an upstander

The way in which this program was designed, as a collaboration with a diverse group of professionals and community members, and the toolkit that was created, serves a model for continued and future action on inclusion and belonging in Palo Alto. It is not too late for conversation circles to still occur, starting the process of listening and understanding, expanding to include others in the community. The feedback of those who did participate, along with their suggestions for next steps, were brought back to the Community Advisory Committee for review and discussion, before being included in a report back to the HRC.

While the conversations were a valuable and personal complement to a year of study of literature and history, follow through is anticipated. 'The key now is for the HRC to actually roll the output into an executive summary of findings and to use that to create and drive a "change agenda"'. It's worth noting that interest and good will of community partners exists now and can be leveraged to realize the vision crafted at the outset.

Palo Alto is a model for equity and belonging, vested in diversity, inclusion, and equity, and committed to putting words into action

As they were designed to do, the conversations provided numerous and rich suggestions from the community for implementation. Participants were thoughtful. They expect, in turn, to see the how the work on inclusion and belonging will continue.

Next Steps

A recap of the project and its findings was presented to the HRC at its August 12, 2021 meeting by Chair Smith and former Vice Chair Stinger, the two principal leaders of the project. After follow-up questions and a time of discussion, the HRC voted (5-0) to recommend forward a list of topic areas to the Council for initial review, comment and direction; they are listed in the next paragraph. The first step in this process was a presentation to the Policy and Services Committee on September 14, 2021 as part of a greater update from city staff on the City's Race and Equity Work. Policy and Services passed a recommendation that included that the Council consider ways in which it can "support the HRC work regarding the 100 Conversations."

The HRC is interested in working with the Council, staff and community in further exploring avenues to enhance Inclusion & Belonging in the areas of Policing, Education, Housing and Community Engagement. They are also proposing that Council consider including Belonging as a City Priority for 2022.

The HRC believes that its past work for Council on 8 Can't Wait, Report on Black & Brown Lives and Current Experience in Palo Alto and the 100 Conversations project were successful as they were the result of clear direction/recommendations from Council to the Commission to address. The Commission would again appreciate receiving clear direction/specific actions to pursue on the topics listed in the previous paragraph and/or other ways in which it can work in partnership with Council and staff to make progress in this important area.

The HRC will utilize the findings from the 100 Conversations participants, along with the feedback received from the Council, to further inform its continued work on Inclusion and Belonging in the community.



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

(ID # 13948)

Meeting Date: 1/24/2022

Title: Approve Minutes from the January 10, 2022 City Council Meeting

From: Lesley Milton, City Clerk

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

ATTACHMENTS:

- **Attachment2.a:** Attachment A: 20220110amCCs Draft (PDF)



CITY COUNCIL DRAFT ACTION MINUTES

Special Meeting
January 10, 2022

The City Council of the City of Palo Alto met on this date in virtual teleconference at 5:00 P.M.

Participating Remotely: Burt, Cormack, DuBois, Filseth, Kou, Stone, Tanaka

Absent: None

Closed Session

1. CONFERENCE WITH REAL PROPERTY NEGOTIATORS
 Authority: Government Code Section 54956.8
 Property: 445 Bryant Street
 Assessor's Parcel Number 120-15-107
 Negotiating Party: JSRFIT LLC, a California limited liability company
 d.b.a. Form Fitness
 City Negotiators: Ed Shikada and Kiely Nose
 Subject of Negotiations: Lease Price and Terms of Payment.

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

MOTION PASSED: 7-0

Council went into Closed Session at 5:09 P.M.

Council returned from Closed Session at 6:28 P.M.

Mayor Burt announced no reportable action.

Agenda Changes, Additions and Deletions

None

Consent Calendar

MOTION: Council Member Dubois moved, seconded by Council Member Filseth to approve Items 2-9.

2. Approve Minutes from December 6th and 13th, 2021 and January 3, 2022.

DRAFT ACTION MINUTES

3. Approval of Contract C22181106 with Universal Site Services Inc. for a Total Not-to-Exceed Amount of \$1,214,373 Over a Five Year Term for Scheduled and On-Call Steam Cleaning Services at Various City Locations.
4. Adoption of Labor Agreements with 1) Service Employees International Union Hourly (SEIU-H) Unit , 2) Utilities Management and Professional Association of Palo Alto (UMPAPA), and 3) Service Employee International Union (Classification Revision).
5. Adopt a Park Improvement Ordinance for the Replacement of the Palo Alto Flood Basin Tide Gate Structure in the City's Baylands.
6. Adoption of Two **Resolutions 10012 and 10013** Authorizing Participation in the California Arrearage Payment Program (CAPP) for Gas and Electric Utilities, and the California Water and Wastewater Arrearage Payment Program (CWWAPP), Including Acceptance of Funds and Crediting Eligible Utility Accounts; and Approval of Amendments to the Fiscal Year 2022 Budget Appropriation Ordinance for the Electric, Gas, and Water Funds to Account for CWWAPP and CAPP Funds.
7. Adoption of an Interim Ordinance Amending Titles 16, 18 and 21 in Response to Senate Bills 9 and 478, Including Amendment to the City's Affordable Housing Requirements for SB 9 Projects. CEQA Status: This Action is not Considered a Project or is Exempt from CEQA in Accordance With Government Code Sections 66411.7(n) and 65852.21(j) or Section 15061 of the State CEQA Guidelines.
8. SECOND READING: Adoption of **Ordinance 5539** Restating Procedures For Expedited Permitting Processing For Electric Vehicle Charging Systems (FIRST READING: December 13, 2021 PASSED: 6-0, Kou absent).
9. SECOND READING: Adoption of Park Improvement **Ordinance 5540** for Renovations at Cameron Park (FIRST READING: February 8, 2021 PASSED: 7-0).

ITEMS 2-7, 9 OF MOTION PASSED: 7-0

ITEM 8 OF MOTION PASSED: 6-0, Kou abstain

DRAFT ACTION MINUTES

Action Items

10. PUBLIC HEARING: Staff Recommend the City Council Review the North Ventura Coordinated Area Plan (NVCAP) Preferred Alternative, Take Public Comment, and Endorse the Preferred Alternative.

MOTION: Council Member DuBois moved, seconded by Mayor Burt that the Council confirm direction for preferred plan for NVCAP with additional considerations:

- A. Define a low-density R&D zone limiting employment density;
- B. 1.0 parking spots for 1 bedroom going to 2 spots for 2 bedroom + units, in parallel, refer to the Planning and Transportation Commission to make recommendations for analysis of appropriate parking based on the Fehr & Peers study and other studies and encourage mechanisms to discourage street parking;
- C. Deed restricted retail required in order to get 15' first floor incentive;
- D. Eliminate workforce housing incentives or propose incentives separate from affordable housing and redefine qualifications for workforce housing;
- E. Develop preferred park locations for larger park space and continue to explore naturalization of the creek consistent with option 3; and
- F. Include 100% affordable housing height limits based upon the minimum height necessary for a five-story, retail affordable housing project or a six-story non-retail affordable housing project.

MOTION PASSED: 5-2, Cormack, Tanaka no

11. Review and Accept the FY 2023 - FY 2032 Long Range Financial Forecast (LRFF) and FY 2023 Budget Development Guidelines.

MOTION: Council Member Cormack moved, seconded by Council Member Filseth to:

- A. Accept the Fiscal Year (FY) 2023 to 2032 Long Range Financial Forecast Base Case and the FY 2023 Budget Development Guidelines including the addition addressing projects and programs not funded; and
- B. Direct Staff to use this forecast as the starting point for the initiation of the FY 2023 budget process.

DRAFT ACTION MINUTES

MOTION PASSED: 6-1, Tanaka no

Adjournment: The meeting was adjourned at 11:09 P.M.

ATTEST:

APPROVED:

City Clerk

Mayor

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



City of Palo Alto City Council Staff Report

(ID # 13520)

Meeting Date: 1/24/2022

Title: Approval of General Services Contract with Denali Water Solutions, LLC for Sludge Hauling Services in an Amount Not to Exceed \$2,427,084 for a 3-Year Term ending March 30, 2025, from the Wastewater Treatment Enterprise Fund

From: City Manager

Lead Department: Public Works

Recommendation

Staff recommends that Council approve and authorize the City Manager or their designee to execute [Contract No. C22183016](#) with Denali Water Solutions, LLC (Attachment A) in an amount not to exceed \$2,427,084 from the Wastewater Treatment Enterprise Fund for sludge hauling services for the Regional Water Quality Control Plant (RWQCP) ending March 30, 2025.

Background

The RWQCP produces sludge requiring offsite treatment. Two onsite sewage sludge incinerators were retired in 2019 and replaced with a new sludge dewatering and truck loadout facility. A contracted hauler began daily loadouts into trucks from the new facility on March 19, 2019, and since then, sludge has been hauled to two different regional treatment facilities. Both offsite facilities are currently under contract with the City for treatment and end use disposal.

To prepare for hauling and treatment, in 2017 Public Works utilized a solicitation for sludge hauling and treatment services. Council approved a contract with Denali Water Solutions, LLC (Denali) on June 18, 2018 ([Staff Report ID# 8913](#)) in an amount not to exceed \$2,181,000 for hauling services through March 31, 2022. A new contract is needed to begin three more years of hauling services beginning April 1, 2022. Contracts for sludge treatment services with Lystek International Limited (Lystek) and Synagro-WWT, Inc. (Synagro) were also approved on June 18, 2018, but these contracts extend until March 30, 2024 and are not before Council for renewal at this time.

Discussion

Staff recommends award of the sludge hauling contract to Denali. Denali is the City's current hauler and is performing the services well. Denali is a large residual biosolids management company that has worked with each of the recommended treatment facilities and served many

other similar organizations including the City of San Mateo, City of Santa Cruz, Los Angeles County Sanitation District, City of Los Angeles, and Orange County Sanitation District. Hauling unit prices relate to distance and route logistics from RWQCP to the treatment facility (e.g., bridge tolls, weigh stations, traffic, driver start/end location, drive time restrictions per driver, etc.). A breakdown of total contract cost is shown below.

Contract Cost Details

Contract Year	Cost	Comment
1	\$792,000	Note 1
2	\$805,460	Note 2
3	\$829,624	Note 2
Note 1: 23,000 wet tons * \$34.00 / wet ton = \$782,000 + \$10,000 for safety program expenses in year one only		
Note 2: Annual increase assumed to be a 3% Consumer Price Index for Urban Wage Earners and Clerical Workers for the San Francisco-Oakland-San Jose Area per Contract Section 6		

The requested contract not to exceed amount of \$2,427,084 with Denali is based on all the wet tons of sludge hauled to the more distant Synagro treatment facility at \$34.00 per wet ton if the Lystek treatment facility is unavailable. The estimated total volume processed in each contract year is 23,000 wet tons. Denali's unit prices for hauling to each treatment site are shown below.

Comparison of Unit Prices in \$/Wet Ton in Current and New Contract

	Existing Contract			New Contract
Exhibit C Rates	11/28/20- 11/27/21	CPI-U Increase Oct 20 - Aug 21	11/28/21- 03/31/22	04/01/22- 03/31/23
To Lystek	\$ 25.46	3.1256%	\$ 26.26	\$ 30.25
To Synagro	\$ 29.10	3.1256%	\$ 30.01	\$ 34.00

The term of the contract includes the contract execution through March 31, 2022 for preparation of the service, administrative coordination, driver training, and development of new safety plans. Most of these preparation activities will not be applicable to Denali as they will continue an existing service, but they will use the time to develop and prepare to implement additional safety plans required by the new contract. The hauling services involve three years of daily loadouts and hauling commencing April 1, 2022, which is one day after the end of the term of the existing contract with Denali on March 31, 2022.

Staff asked Denali about the 13-15 percent increase in unit prices in the new contract pricing proposal. Denali responded that the pricing reflects current market conditions as they relate to inflation, higher diesel prices, and higher prices for truck drivers, including rising costs for diesel fuel and drivers that commenced during the term of the last contract.

Summary of Bid Process

On August 18, 2021, a request for quotation (RFQ) solicitation for three years of sludge hauling services was posted on the PlanetBids website and sent to four companies. The bidding period was 41 days. A mandatory pre-bid meeting was held September 9, 2021. On September 28, 2021 bids were received from one hauler, which was complete and accepted. Bid details are listed in the bid summary (Attachment B).

Bid Process Details

Bid Name/Number	Sludge Hauling Services/#RFQ183016
<i>Proposed Length of Project</i>	3 years
<i>Total Days to Respond to Bid</i>	41
<i>Bids Due</i>	September 28, 2021
<i>Pre-Bid Meeting</i>	Yes
<i>Number of Company Attendees at Pre-Bid Meeting</i>	3 (2 haulers; 1 treatment site)
<i>Number of Bids Received</i>	1
<i>Bid Price Range</i>	\$757,500 for one year

Staff reviewed the bid submitted and recommends Denali be declared the lowest responsible bidder. Denali has performed satisfactory work for the City from 2018 to the present for sludge hauling services. Staff reached out to other haulers that did not bid. Company representatives shared that they were too busy on other bids at the time of this bid; had staffing shortages; were dealing with internal COVID issues at the time of the pre-bid conference; were dealing with a national shortage of truck drivers; and did not think they could service the contract properly at this time.

Contingency for Force Majeure Situations

A force majeure may limit sludge disposal options (e.g., damaged roadways, earthquake damage, process breakdowns, new regulatory constraints, etc.). In using multiple treatment contracts with Synagro and Lystek, Palo Alto is benefiting from diversified disposal options, as well as two landfill sites identified by Denali. In the event sludge deliveries must be suddenly increased to one of the two treatment facilities, notification timelines for each agency are constrained. The RWQCP's 24/7 production of sludge requires a disposal option be activated and available within one to two days, depending on RWQCP's available onsite storage. The contracted hauler, Denali, can deliver sludge to two landfills as emergency backup should the two treatment facilities be unavailable. Since the commencement of hauling services in 2019, emergency use of a landfill has not been required, with both Lystek and Synagro providing reliable daily treatment services. Synagro and Lystek's reliability is expected to continue during the term of the hauling contract. In the event of a potential future emergency requiring a landfill, every effort will be made to limit landfill use. Use of landfills is problematic because it works against City zero waste policies rather than beneficial reuse; landfill disposal prices are not guaranteed; there are operational and regulatory constraints using a landfill for sludge disposal; and because the landfill would only consider sludge disposal acceptable in short-term emergency situations due to limited ongoing capacity.

Long-Term Biosolids Handling Options

In October 2019, seven biosolids management alternatives were analyzed and evaluated by an engineering consultant and department staff. The evaluation was an [update](#) to the 2014 [Biosolids Facilities Plan](#). The evaluation resulted in a recommendation to continue offsite hauling while simultaneously taking advantage of the time needed to understand and quantify changes in biosolids markets, sludge production trends, regulatory impacts, and changes in sludge production resulting from future secondary treatment system upgrades. No changes to biosolids management alternatives are anticipated during the term of this sludge hauling contract. However, the successor treatment facility contracts-, commencing in April 2024, may include a new treatment facility in addition to the current Synagro and Lystek facilities. During the sludge hauling contract term, if a different offsite treatment site(s) is identified beyond Synagro and Lystek, staff will return to Council to authorize a contract amendment for hauling to a new site(s).

Federal Requirements for Sludge Hauling

The City is required per federal (40 CFR Part 503) and state regulations (via Regional Water Quality Control Board Order No. R2-2019-0015, NPDES Permit CA0037834) to haul sludge to an offsite treatment site; therefore, if this contract is not approved, staff will be unable to comply with these requirements.

Resource Impact

Funding for a portion of the first year of this contract from April 2022 to June 2022 is available in the Wastewater Treatment Enterprise Fund FY 2022 Operating Budget. Funding for subsequent fiscal years of the contract term is subject to the annual appropriation of funds through the budget process.

Palo Alto RWQCP treats the combined wastewater from Palo Alto, Los Altos, Los Altos Hills, Mountain View, Stanford University, and the East Palo Alto Sanitary District. Palo Alto's share of this services is approximately 35% and the other five agencies' share is approximately 65%.

Policy Implications

This recommendation does not represent any change to existing City policies and supports Comprehensive Plan Policy N.4-16.

Stakeholder Engagement

This service is part of the RWQCP's operating budget funded by Palo Alto and the five partner agencies who use the RWQCP for wastewater treatment. The five partner agencies are regularly updated on the need for wastewater treatment services. Updates are provided each year at an annual meeting and at other periodic meetings, as needed. With respect to Palo Alto itself, the open meetings on the budget process serve as the main vehicle for engaging the community on both projects and services such as this and associated rate impacts.

Environmental Review

The activity that is the subject of the proposed contract was evaluated in the environmental review for the sludge dewatering and loadout facility under provisions of the California Environmental Quality Act. An Initial Study/Mitigated Negative Declaration was prepared for the project, and Council approved the environmental documentation on March 21, 2016 ([Staff Report ID #6424](#)).

Attachments:

- **Attachment3.a:** Attachment A: Denali Water Solutions, LLC Contract, C22183016
- Attachment3.b: Attachment B: RFQ 183016, Bid Summary

CITY OF PALO ALTO CONTRACT NO. C22183016**GENERAL SERVICES AGREEMENT**

THIS AGREEMENT made and entered into on January 24, 2022, by and between the **CITY OF PALO ALTO**, a California chartered municipal corporation ("**CITY**"), and **DENALI WATER SOLUTIONS, LLC**, a Delaware Limited Liability Partnership, located at 1425 Victoria Court, Unit B2, San Bernadino, CA 92408, Telephone Number: 714-799-0801 ("**CONTRACTOR**"). In consideration of their mutual covenants, the parties hereto agree as follows:

1. **SERVICES.** CONTRACTOR shall provide or furnish the services (the "Services") described in the Scope of Services, attached at Exhibit A.

☐ Optional On-Call Provision (This provision only applies if checked and only applies to on-call agreements.)

Services will be authorized by CITY, as needed, with a Task Order assigned and approved by CITY's Project Manager. Each Task Order shall be in substantially the same form as Exhibit A-1. Each Task Order shall designate a CITY Project Manager and shall contain a specific scope of work, a specific schedule of performance and a specific compensation amount. The total price of all Task Orders issued under this Agreement shall not exceed the amount of Compensation set forth in Section 5 of this Agreement. CONTRACTOR shall only be compensated for work performed under an authorized Task Order and CITY may elect, but is not required, to authorize work up to the maximum compensation amount set forth in Section 5.

2. **EXHIBITS.** The following exhibits are attached to and made a part of this Agreement:

- ☒ "A" - Scope of Services
- ☒ "A-1" - Palo Alto Sludge Characteristics
- ☒ "B" - Schedule of Performance
- ☒ "C" - Schedule of Fees
- ☒ "D" - Insurance Requirements
- ☒ "E" - Performance Bond

CONTRACT IS NOT COMPLETE UNLESS ALL INDICATED EXHIBITS ARE ATTACHED.

3. **TERM.**

The term of this Agreement is from December 13, 2021 to March 31, 2025 inclusive, subject to the provisions of Sections R and W of the General Terms and Conditions.

- 4. SCHEDULE OF PERFORMANCE.** CONTRACTOR shall complete the Services within the term of this Agreement in a reasonably prompt and timely manner based upon the circumstances and direction communicated to CONTRACTOR, and if applicable, in accordance with the schedule set forth in the Schedule of Performance, attached at Exhibit B. Time is of the essence in this Agreement.
- 5. COMPENSATION FOR ORIGINAL TERM.** CITY shall pay and CONTRACTOR agrees to accept as not-to-exceed compensation for the full performance of the Services and reimbursable expenses, if any:

- ☐ The total maximum lump sum compensation of _____ dollars (\$ _____);
OR
- ☐ The sum of _____ dollars (\$ _____) per hour, not to exceed a total maximum compensation amount of _____ dollars (\$ _____); **OR**
- ☒ A sum calculated in accordance with the fee schedule set forth at Exhibit C, not to exceed a total maximum compensation amount of **two million four hundred and twenty-seven thousand and eighty-four dollars (\$2,427,084).**

CONTRACTOR agrees that it can perform the Services for an amount not to exceed the total maximum compensation set forth above. Any hours worked or services performed by CONTRACTOR for which payment would result in a total exceeding the maximum amount of compensation set forth above for performance of the Services shall be at no cost to CITY.

- ☐ CITY has set aside the sum of _____ dollars (\$ _____) for Additional Services. CONTRACTOR shall provide Additional Services only by advanced, written authorization from the City Manager or designee. CONTRACTOR, at the CITY's request, shall submit a detailed written proposal including a description of the scope of services, schedule, level of effort, and CONTRACTOR's proposed maximum compensation, including reimbursable expense, for such services. Compensation shall be based on the hourly rates set forth above or in Exhibit C (whichever is applicable), or if such rates are not applicable, a negotiated lump sum. CITY shall not authorize and CONTRACTOR shall not perform any Additional Services for which payment would exceed the amount set forth above for Additional Services. Payment for Additional Services is subject to all requirements and restrictions in this Agreement.

6. COMPENSATION DURING ADDITIONAL TERMS.

- ☐ CONTRACTOR'S compensation rates for each additional term shall be the same as the original term; **OR**
- ☒ CONTRACTOR's lump sum compensation amount, hourly rates, or fees, whichever is applicable as set forth in section 5 above, is inclusive of an annual Consumer Price Index adjustment effective immediately following the first year of active hauling services (April 1, 2023) adjusted by a percentage equal to the change in the Consumer Price Index for Urban Wage Earners and Clerical Workers for the San Francisco-Oakland- San Jose area, published by the United States Department of Labor Statistics (CPI) which is published most immediately preceding the commencement of the applicable Additional Term, which shall be compared with the CPI published most immediately preceding the commencement date of the then expiring term. Notwithstanding the foregoing, in no event shall CONTRACTOR's compensation rates be increased by an amount exceeding five percent of the rates effective during the immediately preceding term. Any further adjustment to CONTRACTOR's compensation rates shall be reflected in a written amendment to this Agreement.

7. CLAIMS PROCEDURE FOR "9204 PUBLIC WORKS PROJECTS". For purposes of this Section 7, a "9204 Public Works Project" means the erection, construction, alteration, repair, or improvement of any public structure, building, road, or other public improvement of any kind. Public Contract Code Section 9204 mandates certain claims procedures for Public Works Projects, which are set forth in "Appendix _____ Claims for Public Contract Code Section 9204 Public Works Projects".

- ☐ **This project is a 9204 Public Works Project** and is required to comply with the claims procedures set forth in Appendix_, attached hereto and incorporated herein.

OR

- ☒ **This project is not a 9204 Public Works Project.**

8. INVOICING. Send all invoices to CITY, Attention: Project Manager. The Project Manager is James Allen, Public Works Department, Regional Water Quality Control Plant (RWQCP) 2501 Embarcadero Way, Palo Alto, CA 94303. Telephone: 650-329-2243, Email: rwqcp.invoices@cityofpaloalto.org. Invoices shall be submitted in arrears for Services performed. Invoices shall not be submitted more frequently than monthly. Invoices shall provide a detailed statement of Services

performed during the invoice period and are subject to verification by CITY. CITY shall pay the undisputed amount of invoices within 30 days of receipt.

Invoice shall include:

- Contract Number
- Item description
- Itemized spreadsheet, auditable at any time for individual load tickets
- Certified net weight of each load times contract price per ton

Invoice shall be electronic pursuant to City administrative standards; a PDF email is acceptable.

GENERAL TERMS AND CONDITIONS

- A. ACCEPTANCE.** CONTRACTOR accepts and agrees to all terms and conditions of this Agreement. This Agreement includes and is limited to the terms and conditions set forth in sections 1 through 8 above, these general terms and conditions and the attached exhibits.
- B. QUALIFICATIONS.** CONTRACTOR represents and warrants that it has the expertise and qualifications to complete the services described in Section 1 of this Agreement, entitled "SERVICES," and that every individual charged with the performance of the services under this Agreement has sufficient skill and experience and is duly licensed or certified, to the extent such licensing or certification is required by law, to perform the Services. CITY expressly relies on CONTRACTOR's representations regarding its skills, knowledge, and certifications. CONTRACTOR shall perform all work in accordance with generally accepted business practices and performance standards of the industry, including all federal, state, and local operation and safety regulations.
- C. INDEPENDENT CONTRACTOR.** It is understood and agreed that in the performance of this Agreement, CONTRACTOR and any person employed by CONTRACTOR shall at all times be considered an independent CONTRACTOR and not an agent or employee of CITY. CONTRACTOR shall be responsible for employing or engaging all persons necessary to complete the work required under this Agreement.
- D. SUBCONTRACTORS.** CONTRACTOR may not use subcontractors to perform any Services under this Agreement unless CONTRACTOR obtains prior written consent of CITY. CONTRACTOR shall be solely responsible for directing the work of approved subcontractors and for any compensation due to subcontractors.

- E. TAXES AND CHARGES.** CONTRACTOR shall be responsible for payment of all taxes, fees, contributions or charges applicable to the conduct of CONTRACTOR's business.
- F. COMPLIANCE WITH LAWS.** CONTRACTOR shall in the performance of the Services comply with all applicable federal, state and local laws, ordinances, regulations, and orders.
- G. PALO ALTO MINIMUM WAGE ORDINANCE.** CONTRACTOR shall comply with all requirements of the Palo Alto Municipal Code Chapter 4.62 (Citywide Minimum Wage), as it may be amended from time to time. In particular, for any employee otherwise entitled to the State minimum wage, who performs at least two (2) hours of work in a calendar week within the geographic boundaries of the City, CONTRACTOR shall pay such employees no less than the minimum wage set forth in Palo Alto Municipal Code section 4.62.030 for each hour worked within the geographic boundaries of the City of Palo Alto. In addition, CONTRACTOR shall post notices regarding the Palo Alto Minimum Wage Ordinance in accordance with Palo Alto Municipal Code section 4.62.060.
- H. DAMAGE TO PUBLIC OR PRIVATE PROPERTY.** CONTRACTOR shall, at its sole expense, repair in kind, or as the City Manager or designee shall direct, any damage to public or private property that occurs in connection with CONTRACTOR's performance of the Services. CITY may decline to approve and may withhold payment in whole or in part to such extent as may be necessary to protect CITY from loss because of defective work not remedied or other damage to the CITY occurring in connection with CONTRACTOR's performance of the Services. CITY shall submit written documentation in support of such withholding upon CONTRACTOR's request. When the grounds described above are removed, payment shall be made for amounts withheld because of them.
- I. WARRANTIES.** CONTRACTOR expressly warrants that all services provided under this Agreement shall be performed in a professional and workmanlike manner in accordance with generally accepted business practices and performance standards of the industry and the requirements of this Agreement. CONTRACTOR expressly warrants that all materials, goods and equipment provided by CONTRACTOR under this Agreement shall be fit for the particular purpose intended, shall be free from defects, and shall conform to the requirements of this Agreement. CONTRACTOR agrees to promptly replace or correct any material or service not in compliance with these warranties, including incomplete, inaccurate, or defective material or service, at no further cost to CITY. The warranties set forth in this section shall be in effect for a period of one year from completion of

the Services and shall survive the completion of the Services or termination of this Agreement.

- J. MONITORING OF SERVICES.** CITY may monitor the Services performed under this Agreement to determine whether CONTRACTOR's work is completed in a satisfactory manner and complies with the provisions of this Agreement.
- K. CITY'S PROPERTY.** Any reports, information, data or other material (including copyright interests) developed, collected, assembled, prepared, or caused to be prepared under this Agreement will become the property of CITY without restriction or limitation upon their use and will not be made available to any individual or organization by CONTRACTOR or its subcontractors, if any, without the prior written approval of the City Manager.
- L. AUDITS.** CONTRACTOR agrees to permit CITY and its authorized representatives to audit, at any reasonable time during the term of this Agreement and for three (3) years from the date of final payment, CONTRACTOR's records pertaining to matters covered by this Agreement. CONTRACTOR agrees to maintain accurate books and records in accordance with generally accepted accounting principles for at least three (3) following the terms of this Agreement.
- M. NO IMPLIED WAIVER.** No payment, partial payment, acceptance, or partial acceptance by CITY shall operate as a waiver on the part of CITY of any of its rights under this Agreement.
- N. INSURANCE.** CONTRACTOR, at its sole cost, shall purchase and maintain in full force during the term of this Agreement, the insurance coverage described at Exhibit D. Insurance must be provided by companies with a Best's Key Rating of A-:VII or higher and which are otherwise acceptable to CITY's Risk Manager. The Risk Manager must approve deductibles and self-insured retentions. In addition, all policies, endorsements, certificates and/or binders are subject to approval by the Risk Manager as to form and content. CONTRACTOR shall obtain a policy endorsement naming the City of Palo Alto as an additional insured under any general liability or automobile policy. CONTRACTOR shall obtain an endorsement stating that the insurance is primary coverage and will not be canceled or materially reduced in coverage or limits until after providing 30 days prior written notice of the cancellation or modification to the Risk Manager. CONTRACTOR shall provide certificates of such policies or other evidence of coverage satisfactory to the Risk Manager, together with the required endorsements and evidence of payment of premiums, to CITY concurrently with the execution of this Agreement and shall throughout the term of this Agreement provide current certificates evidencing the required insurance coverages and endorsements to the Risk Manager. CONTRACTOR shall include all subcontractors as insured under its policies or shall obtain and provide to CITY separate certificates and endorsements

for each subcontractor that meet all the requirements of this section. The procuring of such required policies of insurance shall not operate to limit CONTRACTOR's liability or obligation to indemnify CITY under this Agreement.

- O. HOLD HARMLESS.** To the fullest extent permitted by law and without limitation by the provisions of section N relating to insurance, CONTRACTOR shall indemnify, defend and hold harmless CITY, its Council members, officers, employees and agents from and against any and all demands, claims, injuries, losses, or liabilities of any nature, including death or injury to any person, property damage or any other loss and including without limitation all damages, penalties, fines and judgments, associated investigation and administrative expenses and defense costs, including, but not limited to reasonable attorney's fees, courts costs and costs of alternative dispute resolution), arising out of, or resulting in any way from or in connection with the performance of this Agreement. CONTRACTOR's obligations under this Section apply regardless of whether or not a liability is caused or contributed to by any negligent (passive or active) act or omission of CITY, except that CONTRACTOR shall not be obligated to indemnify for liability arising from the sole negligence or willful misconduct of CITY. The acceptance of the Services by CITY shall not operate as a waiver of the right of indemnification. The provisions of this Section survive the completion of the Services or termination of this Agreement. Notwithstanding anything herein to the contrary, neither party shall be liable to the other for any indirect, special, or consequential damages in any way arising out of this Agreement, regardless of cause.
- P. NON-DISCRIMINATION.** As set forth in Palo Alto Municipal Code Section 2.30.510, CONTRACTOR certifies that in the performance of this Agreement, it shall not discriminate in the employment of any person because of the race, skin color, gender, age, religion, disability, national origin, ancestry, sexual orientation, housing status, marital status, familial status, weight or height of such person. CONTRACTOR acknowledges that it has read and understands the provisions of Section 2.30.510 of the Palo Alto Municipal Code relating to Nondiscrimination Requirements and the penalties for violation thereof, and agrees to meet all requirements of Section 2.30.510 pertaining to nondiscrimination in employment.
- Q. WORKERS' COMPENSATION.** CONTRACTOR, by executing this Agreement, certifies that it is aware of the provisions of the Labor Code of the State of California which require every employer to be insured against liability for workers' compensation or to undertake self-insurance in accordance with the provisions of that Code, and certifies that it will comply with such provisions, as applicable, before commencing and during the performance of the Services.
- R. TERMINATION.** The City Manager may terminate this Agreement without cause by giving ten (10) days' prior written notice thereof to CONTRACTOR. If CONTRACTOR fails to perform any of its material obligations under this

Agreement, in addition to all other remedies provided by law, the City Manager may terminate this Agreement immediately upon written notice of termination. Upon receipt of such notice of termination, CONTRACTOR shall immediately discontinue performance. CITY shall pay CONTRACTOR for services satisfactorily performed up to the effective date of termination. If the termination is for cause, CITY may deduct from such payment the amount of actual damage, if any, sustained by CITY due to CONTRACTOR's failure to perform its material obligations under this Agreement. Upon termination, CONTRACTOR shall immediately deliver to the City Manager any and all copies of studies, sketches, drawings, computations, and other material or products, whether or not completed, prepared by CONTRACTOR or given to CONTRACTOR, in connection with this Agreement. Such materials shall become the property of CITY.

- S. ASSIGNMENTS/CHANGES.** This Agreement binds the parties and their successors and assigns to all covenants of this Agreement. This Agreement shall not be assigned or transferred without the prior written consent of CITY. No amendments, changes or variations of any kind are authorized without the written consent of CITY.
- T. CONFLICT OF INTEREST.** In accepting this Agreement, CONTRACTOR covenants that it presently has no interest, and will not acquire any interest, direct or indirect, financial or otherwise, which would conflict in any manner or degree with the performance of this Contract. CONTRACTOR further covenants that, in the performance of this Contract, it will not employ any person having such an interest. CONTRACTOR certifies that no CITY officer, employee, or authorized representative has any financial interest in the business of CONTRACTOR and that no person associated with CONTRACTOR has any interest, direct or indirect, which could conflict with the faithful performance of this Contract. CONTRACTOR agrees to advise CITY if any conflict arises.
- U. GOVERNING LAW.** This Agreement shall be governed and interpreted by the laws of the State of California.
- V. ENTIRE AGREEMENT.** This Agreement, including all exhibits, represents the entire agreement between the parties with respect to the services that may be the subject of this Agreement. Any variance in the exhibits does not affect the validity of the Agreement and the Agreement itself controls over any conflicting provisions in the exhibits. This Agreement supersedes all prior agreements, representations, statements, negotiations and undertakings whether oral or written.
- W. NON-APPROPRIATION.** This Agreement is subject to the fiscal provisions of the Charter of the City of Palo Alto and the Palo Alto Municipal Code. This Agreement will terminate without any penalty (a) at the end of any fiscal year in the event that funds are not appropriated for the following fiscal year, or (b) at any time within a fiscal year in the event that funds are only appropriated for a portion of the fiscal year and funds for this Contract are no longer available. This Section

shall take precedence in the event of a conflict with any other covenant, term, condition, or provision of this Contract.

X. ENVIRONMENTALLY PREFERRED PURCHASING AND ZERO WASTE REQUIREMENTS. CONTRACTOR shall comply with CITY's Environmentally Preferred Purchasing policies which are available at CITY's Purchasing Division, which are incorporated by reference and may be amended from time to time. CONTRACTOR shall comply with waste reduction, reuse, recycling and disposal requirements of CITY's Zero Waste Program. Zero Waste best practices include first minimizing and reducing waste; second, reusing waste and third, recycling or composting waste. In particular, CONTRACTOR shall comply with the following zero waste requirements:

- All printed materials provided by CONTRACTOR to CITY generated from a personal computer and printer including but not limited to, proposals, quotes, invoices, reports, and public education materials, shall be double-sided and printed on a minimum of 30% or greater post-consumer content paper, unless otherwise approved by CITY's Project Manager. Any submitted materials printed by a professional printing company shall be a minimum of 30% or greater post-consumer material and printed with vegetable based inks.
- Goods purchased by Contractor on behalf of CITY shall be purchased in accordance with CITY's Environmental Purchasing Policy including, but not limited to, Extended Producer Responsibility requirements for products and packaging. A copy of this policy is on file at the Purchasing Division's office.
- Reusable/returnable pallets shall be taken back by CONTRACTOR, at no additional cost to CITY, for reuse or recycling. CONTRACTOR shall provide documentation from the facility accepting the pallets to verify that pallets are not being disposed.

Y. AUTHORITY. The individual(s) executing this Agreement on behalf of the parties represent and warrant that they have the legal capacity and authority to do so on behalf of their respective legal entities.

Z. PREVAILING WAGES

☒ **This Project is not subject to prevailing wages.** Contractor is not required to pay prevailing wages in the performance and implementation of the Project in accordance with SB 7, if the contract is not a public works contract, if contract does not include a public works construction project of more than \$25,000, or the contract does not include a public works alteration, demolition, repair, or maintenance (collectively, 'improvement') project of more than \$15,000.

OR

- ☐ **Contractor is required to pay general prevailing wages** as defined in Subchapter 3, Title 8 of the California Code of Regulations and Section 16000 et seq. and Section 1773.1 of the California Labor Code. Pursuant to the provisions of Section 1773 of the Labor Code of the State of California, the City Council has obtained the general prevailing rate of per diem wages and the general rate for holiday and overtime work in this locality for each craft, classification, or type of worker needed to execute the contract for this Project from the Director of the Department of Industrial Relations ("DIR"). Copies of these rates may be obtained at the Purchasing Division's office of the City of Palo Alto. Contractor shall provide a copy of prevailing wage rates to any staff or subcontractor hired, and shall pay the adopted prevailing wage rates as a minimum. Contractor shall comply with the provisions of all sections, including, but not limited to, Sections 1775, 1776, 1777.5, 1782, 1810, and 1813, of the Labor Code pertaining to prevailing wages.

AA.DIR REGISTRATION. In regard to any public work construction, alteration, demolition, repair or maintenance work, CITY will not accept a bid proposal from or enter into this Agreement with CONTRACTOR without proof that CONTRACTOR and its listed subcontractors are registered with the California Department of Industrial Relations ("DIR") to perform public work, subject to limited exceptions. City requires CONTRACTOR and its listed subcontractors to comply with the requirements of SB 854.

CITY provides notice to CONTRACTOR of the requirements of California Labor Code section 1771.1(a), which reads:

"A contractor or subcontractor shall not be qualified to bid on, be listed in a bid proposal, subject to the requirements of Section 4104 of the Public Contract Code, or engage in the performance of any contract for public work, as defined in this chapter, unless currently registered and qualified to perform public work pursuant to Section 1725.5. It is not a violation of this section for an unregistered contractor to submit a bid that is authorized by Section 7029.1 of the Business and Professions Code or Section 10164 or 20103.5 of the Public Contract Code, provided the contractor is registered to perform public work pursuant to Section 1725.5 at the time the contract is awarded."

CITY gives notice to CONTRACTOR and its listed subcontractors that CONTRACTOR is required to post all job site notices prescribed by law or regulation and CONTRACTOR is subject to SB 854-compliance monitoring and enforcement by DIR.

CITY requires CONTRACTOR and its listed subcontractors to comply with the requirements of Labor Code section 1776, including:

Keep accurate payroll records, showing the name, address, social security number, work classification, straight time and overtime hours worked each day and week, and the actual per diem wages paid to each journeyman, apprentice, worker, or other employee employed by, respectively, CONTRACTOR and its listed subcontractors, in connection with the Project.

The payroll records shall be verified as true and correct and shall be certified and made available for inspection at all reasonable hours at the principal office of CONTRACTOR and its listed subcontractors, respectively.

At the request of CITY, acting by its project manager, CONTRACTOR and its listed subcontractors shall make the certified payroll records available for inspection or furnished upon request to the project manager within ten (10) days of receipt of CITY's request.

☐ [For state- and federally-funded projects] CITY requests CONTRACTOR and its listed subcontractors to submit the certified payroll records to the project manager at the end of each week during the Project.

If the certified payroll records are not produced to the project manager within the 10-day period, then CONTRACTOR and its listed subcontractors shall be subject to a penalty of one hundred dollars (\$100.00) per calendar day, or portion thereof, for each worker, and CITY shall withhold the sum total of penalties from the progress payment(s) then due and payable to CONTRACTOR.

Inform the project manager of the location of CONTRACTOR's and its listed subcontractors' payroll records (street address, city and county) at the commencement of the Project, and also provide notice to the project manager within five (5) business days of any change of location of those payroll records.

BB. CONTRACT TERMS. All unchecked boxes do not apply to this Agreement. In the case of any conflict between the terms of this Agreement and the exhibits hereto or CONTRACTOR's proposal (if any), the Agreement shall control. In the case of any conflict between the exhibits hereto and CONTRACTOR's proposal, the exhibits shall control.

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


CITY OF PALO ALTO

City Manager

Approved as to form:

City Attorney or Designee

DENALI WATER SOLUTIONS, LLC

Officer 1
By  DocuSigned by:
FABC9FE56943436...
Name Jeffrey LeBlanc, President
Title President

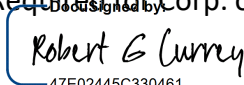
Officer 2 (Required for Corp. or LLC)
By  DocuSigned by:
47E02445C330461...
Name Robert G Currey
Title CFO

EXHIBIT A
SCOPE OF SERVICES
SLUDGE HAULING SERVICES

1. BACKGROUND AND PURPOSE

- a. The work is for services to daily load and haul sludge from the City of Palo Alto's sludge dewatering facility. CONTRACTOR (referred to herein as the "Hauler") shall transport sludge to disposal sites as listed in this scope of services.
- b. Daily sludge hauling services in this contract must begin April 1, 2022 with City dispatching first load on Thursday, March 31, 2022, and will continue through the end of the term listed in Section 3 of the Agreement.
- c. After City approves this Contract but prior to the start of active hauling, CONTRACTOR will provide services listed below:

Providing required bonds, contract execution, providing City spill / emergency response plan, preparing respiratory protection and exposure control plans, obtaining permits with treatment sites at Lystek and Synagro, initial driver training, setting up initial dispatching contacts, conducting required training and safety programs, and any other prerequisites described in this Scope of Work.

- d. This work requires backup treatment facilities. The Hauler's backup treatment sites are as listed in Exhibit C to this Agreement..

2. PICKUP ADDRESS

Palo Alto Regional Water Quality Control Plant ("RWQCP")
Attn: Operations Shift Supervisor or Senior Operator
2501 Embarcadero Way
Palo Alto, CA 94303
650-329-2598 - phone

3. PALO ALTO SLUDGE CHARACTERISTICS

- a. The material covered under this Agreement is a mix of raw, dewatered wastewater sludge and scum (hereafter, collectively referred to as "sludge") that has not yet been stabilized.
- b. The wastewater sludge is collected as waste sludge from activated sludge tanks (about 29% of total content) and primary sludge settling tanks (about

71% of total content). This blend is then thickened in gravity thickeners to 3% to 4% solids. The sludge blend is processed through grinders before being sent to a blend tank. The sludge is kept blended with mix pumps and aerated by a blower in a 100,000 gallon mix tank, is pumped to a belt filter press, is treated for odors in-line with a sodium hypochlorite solution, and is then dewatered using a high molecular weight cationic polymer solution on a belt filter press. Upstream preliminary treatment processes include grit removal and mechanically raked barscreens using $\frac{3}{4}$ " spacing at the headworks.

- c. Primary tank scum is pumped through a grinder, sent to a scum concentrator, and thickened to about 50% solids. This scum will be added to the 20% plus sludge cake screw conveyors that feed into sludge cake bins.
- d. Solids content of filter press cake will have a solid content of not less than 20%.
- e. Except as stated herein, the City cannot guarantee condition or quality of the material. Therefore, notice is hereby given that the content and nature of the sludge and scum may change depending on RWQCP process control changes, treatment plant changes, influent characteristics, or treatment plant effectiveness.
- f. The City will certify that the wastewater sludge and scum pollutant concentrations are at or below the metal concentration limits established in 40 CFR 501.13, Table 1 and Table 3.
- g. Hauler is aware that wastewater sludge contains pathogenic microorganisms and does not meet all 40 CFR 503 regulations. The City declares, and Hauler acknowledges, that:
 - i. The sludge does not meet the pathogen reduction requirements of 40 CFR 503.32(B)(3) ["PRSP"].
 - ii. The sludge does not meet the vector attraction reduction requirements of 40 CFR 503.33(b)(1).
- h. Furthermore, sludge and scum quality data is included as Exhibit A-1 to this Exhibit for the Hauler's reference. Hauler shall verify, by analyzing the data provided and making inquiries, as needed, as to the characteristics of the wastewater sludge/scum mix and their ability to haul the wastewater sludge at the treatment/disposal site(s).
- i. At no time during the term of this Agreement shall the City make available to the Hauler, nor shall the Hauler be obligated to handle, any wastewater sludge which is designated a hazardous waste under applicable law, rule, or

regulation, and nothing herein shall relieve the City of liability or responsibility with respect to any sludge generated at its facilities which is a hazardous waste.

4. SLUDGE PRODUCTION ESTIMATES

- a. This scope of services covers the disposal, including loading, transportation/hauling, delivery, and unloading of approximately 23,000 annual wet tons of raw wastewater sludge.
- b. The City produces wastewater sludge twenty-four (24) hours per day, seven (7) days per week, resulting up to 23,000 wet tons annually by end of term. A breakdown is included in the table below for historical sludge production by the new sludge dewatering and loadout facility, which began operation March 18, 2019. The Hauler's transport system must have the capacity to handle the maximum levels of wastewater sludge during peak production periods (esp. after large storms that bring in extra solids).

Palo Alto RWQCP Sludge Dewatering Facility Sludge Production March 18, 2019 – June 30, 2021					
Synagro Values in Wet Tons, Average 30% Sludge Cake					
Year	Jan-Mar	Apr-Jun	July-Sep	Oct-Dec	Annual Total
2019	386.72	3263.98	2867.49	2986.98	9505.17
2020	2931.65	2443.08	2383.67	3562.52	11320.92
2021	2729.68	2020.04	n/a	n/a	4749.72
Lystek Values in Wet Tons, Average 30% Sludge Cake					
Year	Jan-Mar	Apr-Jun	July-Sep	Oct-Dec	Annual Total
2019	453.62	2551.24	2087.93	2169.51	7,262.3
2020	2091.82	1935.82	1607.51	582.89	6218.04
2021	1432.64	2293.80	n/a	n/a	3726.44
General Characteristics:					
<ul style="list-style-type: none"> • 03/18/19 – 12/31/19 – 16,767.47 wet tons • 01/01/20 – 12/31/20 – 17,538.96 wet tons • 01/01/21 – 06/30/21 – 8,476.16 wet tons • 2021 – 17,093 wet ton prediction at current pandemic suppressed rates • Average Loadout (01/01/21 – 06/30/21): 25.53 wet tons / truck • Average Loadouts per Day (01/01/21 – 06/30/21): 1.83 truck loadouts per day • Number of Typical of Loadouts per Day (Range): 1, 2, or 3 trucks per day 					

- c. Production rates may be varied or stopped to match RWQCP operational needs. Operation may also be interrupted occasionally for maintenance or repair. Advance notice of temporary interruption will be given to the Hauler whenever possible.

- d. The wastewater sludge shall become the property of the Hauler at the time the material is deposited in the Hauler's trailer. Therefore, it is the Hauler's responsibility to make any and all arrangements for disposal at the treatment/disposal sites identified and approved by the City (referred to herein as the "treatment/disposal sites").
- e. The amount of biosolids to be hauled is an estimate only. Therefore, notice is hereby given that the quantity, content, and nature of the material may change depending on RWQCP process control changes, process upsets, plant upgrades, repairs, maintenance, operational improvements, belt press dewatering schedule, day of week, holidays, seasonal changes, storm-induced increases in produced solids, changes in community population, treatment plant changes, and so forth.
- f. No minimum wastewater sludge generation rate is guaranteed. However, the Hauler will be required to dispose of 100% of all wastewater sludge that the City designates for disposal pursuant to this Agreement even if the total quantity exceeds the estimate.

5. GENERAL RESPONSIBILITIES

- a. The Hauler shall know, follow, comply with, and stay updated on all federal, state, and local laws, regulations, statutes, ordinances, orders, decrees, and permits that affect this work. This includes loading and unloading, treatment site operation and maintenance, monitoring and reporting, processing and disposal of sludge, USDOT, transportation, driver and operator certifications, environmental and pollution regulations, noise control, and inspections by authorized representatives as required by such requirements. Hauler shall provide documentation of specific permits, orders, decrees, registrations, and so forth upon request. All costs associated with obtaining such permits and licenses shall be considered as included in the unit price. Federal Regulations, including 40 CFR Parts 257, 258, 403 and 503, provide specific requirements for biosolids disposal and must be complied with by Hauler.
- b. The Hauler agrees to furnish all information as required by the City in order to fulfill the responsibilities of the City for reporting on compliance with wastewater sludge rules and regulations as well as for accurate payment.
- c. Transportation shall be by a USDOT licensed, registered hauler.
- d. The Hauler will be required to furnish to City and update, as necessary, a list of telephone numbers and names of responsible parties to be called on a 24-hour, 7 days per week basis in the event of an emergency or unusual operating conditions. The Hauler's designated representative must be available to

respond to City staff within a mutually acceptable time span (within three to four hours). It will be mandatory to have dedicated business cell phones and email for supplementary communications. The Hauler shall coordinate and cooperate with staff at the RWQCP and disposal site owners/operators (in consultation with the City) to fulfill their respective requirements.

- e. Prior to initiating services under the Agreement, the Hauler's operational team will meet with RWQCP management, operations management, and accounts payable team members at the RWQCP.
- f. Raw sludge contains micro-organisms from the wastewater treatment process that include pathogens. Precautions are required. The Hauler is to follow an Exposure Control Plan for Blood Borne Pathogens pursuant to CalOSHA rules and California Code of Regulations, Title 8, Section 5193. The Exposure Control Plan is to be on file for review, if requested.
 - i. Hauler shall provide proper training to all drivers before their first pickup and on a recurring basis, as needed.
 - ii. PPE shall include latex or nitrile gloves, safety shoes, eye protection, available hard hat, full length pants, and any required face coverings/respirators. This PPE shall be worn at both City site and any treatment plant site.
 - iii. Hauler shall have provisions for washing hands with soap, and access to potable drinking water and OSHA approved first aid kits.
- g. Raw sludge releases odors during loadouts. Some loadouts produce hydrogen sulfide at levels that may require respiratory protection. Precautions are required. The Hauler is to develop and follow a written Respiratory Protection Program pursuant to CalOSHA rules and California Code of Regulations, Title 8, Section 5144. The Respiratory Protection Program is to be on file for review, if requested.
 - i. An allowance of \$10,000 is authorized per Exhibit C for development of a written respiratory protection program, required respiratory protection equipment, initial and recurring qualitative and/or quantitative fit testing of respirators, initial medical clearance checks for each company driver to wear a respirator, and other required components of the program.
 - ii. Hauler shall provide proper training to all drivers before their first pickup and on a recurring basis, as needed.
 - iii. Respiratory protection shall include respirators provided at no cost to drivers and fitted to each driver. Freelance drivers contracted by the hauler will be made fully aware of the respiratory protection program requirements in this section.

- iv. Respirators will be fitted with cartridges and rated by NIOSH as capable of treating “HS” for acid gases containing hydrogen sulfide.
 - v. Properly fitted respirators with cartridges for hydrogen sulfide shall be worn by each driver (either company driver or contracted driver) from the time a loadout is started until the driver leaves the building, and as directed by Palo Alto.
 - vi. Respirators, masks, and/or face coverings shall be worn as required by governing agencies or Palo Alto, as necessary as it relates to pandemics and public health orders.
- h. The Hauler shall attend periodic meetings, as needed, to discuss items such as: operational requirements at RWQCP and treatment site(s), performance reviews, safety/spill response planning, and strategies for common benefit. Input and constructive feedback to improve all aspects of this Agreement is expected during the Agreement term. Meetings will be one-hour annual (or as needed) meetings held at RWQCP, treatment sites, a mutually agreeable location, or by telecon/virtually.
- i. The wastewater treatment plant is an essential public service. The Hauler is also providing an essential service and will coordinate on continuity of operations during declared emergencies, and will comply with all applicable governmental orders, guidance, or regulations related to public health and safety for essential services during local or global pandemics.

6. LOADING REQUIREMENTS

- a. Prior to start of work, Hauler shall visually observe the truck loadout facility and verify that the Hauler’s equipment can safely operate at the RWQCP.
- b. The processed wastewater sludge is conveyed to a cake storage bin for trailer loading. Vertical clearance loading access below the bypass chute’s lowest point of discharge is approximately 12’-5” above the floor, per field measurement. Hauler is to field verify vertical clearance for their own or contracted trucks prior to start of work; Hauler is not to dispatch trucks that will not fit inside the Loadout Bay.
- c. The City owns and maintains the RWQCP, the sludge dewatering equipment, and the truck loadout facility. The Hauler shall only provide trucks and trailers compatible with the existing system. Trucks shall be empty upon arrival for loading at the RWQCP.
- d. The Hauler will have free and easy access to the site pursuant to the security and entry protocols established by the City, as needed. Whether working in auto mode or manually, the Hauler will be responsible for opening and closing

the RWQCP entrance and exit gates as well as the sludge dewatering building truck loadout bay's roll-up doors. Any damage to City property, including landscaping, building systems, loadout chutes, entry systems, bin gates and screws, and roll-up doors caused by the Hauler shall be promptly repaired by the Hauler at no cost to the City. Hauler shall observe traffic signs and RWQCP speed limit of 5 MPH.

- e. The Hauler will load all wastewater sludge into the Hauler's trailers. The trailer will be positioned directly under the cake hoppers for loading. The cake hoppers distribute the dewatered raw sludge in the hauler's trailer via cake loadout chutes. During the trailer loading process, a computer program is used to track the total weight of the dewatered sludge loaded into the trailer. The Hauler will be responsible for monitoring the total weight entering the trailer, load distribution in the trailer and ensuring the load does not exceed the "Full Load" established by the Hauler for each trailer. Overweight tickets are the responsibility of the Hauler.
- f. Only sludge will be added into the Hauler's trailers. Latex gloves and other debris is not to be added into the trailer. All drivers will be trained on this provision as it may lead to rejected loads at the treatment site.
- g. The Hauler shall bring problems with the loadout system to the attention of RWQCP management, supervisory staff, and the designated-operator-in-charge immediately.
- h. Once the Hauler's trailer is full, Hauler shall cover the load with the tarp that is on each trailer to minimize release of odors and avoid spillage from the dewatered raw sludge while the trailer is in transport to the final treatment site. The tarp shall be placed over the trailer inside the loadout bay (not outside) and before roll-up doors are opened. The truck shall be promptly driven from the RWQCP site directly and out the back gate and on to the treatment/disposal site. No unnecessary parking inside the RWQCP or on Embarcadero Road is authorized. All drivers shall be trained on entrance and exiting procedures at the facility and odor minimization rules for the truck when onsite.
- i. The Hauler shall make a proper effort to take full loads of at least 21 wet tons. Hauler's driver should not leave the RWQCP until a full load is received. Drivers are to be trained on the proper quantity to take. City shall not be responsible for Hauler failing to take a minimum loadout if the sludge bins have adequate sludge for the minimum loadout. City will not normally dispatch for anything but full loads (e.g., an exception to empty a partially full bin for special maintenance activities, in which case the minimum load charge may apply).

- j. The Hauler's trucks shall be cleaned and free of any foreign matter/contamination (from any pre-hauling or back-hauling operation) such that only dewatered sludge will be transported to the treatment/disposal site(s).
- k. The City reserves the right to set a loading target below the CalDOT road limit (e.g., 2000 pounds less) to account for errors in weight readings and uncertainty caused by loadout bin weight calculations by the City's PLC. It is the Hauler's responsibility to pay overweight limit fines. There are no onsite zones or facilities at the RWQCP for unloading excess material to return a Hauler's truck to a legal weight limit. There is no separate weigh scale onsite to aid the Hauler in how much material to remove.
- l. The RWQCP is not a staging/storage site. Hauler shall not store or stage equipment at the RWQCP.
- m. The Loadout Bay is not long enough for trucks with "sleeper" cabs unless the exit door is left open, which reduces the effectiveness of the odor control system of the Loadout Bay. In situations where the RWQCP Plant Manager or their designee determines that a sleeper cab is needed for urgent operational necessity, a truck may be dispatched with a sleeper cab. In all other cases, no sleeper cabs shall be dispatched in order to allow loadouts with maximum odor control.
- n. Odor Control Best Practices
 - i. The misting system to neutralize odors shall be started before the driver enters Loadout Bay. The odor neutralizer is on a timer and is to be left running after the driver leaves for 60 minutes.
 - ii. Entrance and exit roll-up doors are to be closed before commencing a loadout to reduce offsite odors.
 - iii. After loadout completion, trucks are to be tarped inside the Loadout Bay before opening the exit roll-up door.
 - iv. The driver is to return to the building to close the exit roll-up door before promptly leaving the site through the back gate.
 - v. Onsite City restroom facilities should be used prior to loading a trailer so that a fully tarped trailer is not parked unnecessarily onsite.
 - vi. All drivers are to be trained on odor minimization protocols as part of their initial training and as needed.
- o. The Loadout Bay bin discharge gates and screws must be operated safely. All drivers are to follow the City's standard unloading procedures to operate switches for gates and screws to prevent jamming, damage, motor overloads, motor drive damage, and so forth. Failure of a driver to follow procedures will be the responsibility of the Hauler. Standard procedure will be provided at

driver initial training. Hauler is to notify new drivers not to unload without proper training by a Plant operator assigned by the designated-operator-in-charge.

7. HAULING SCHEDULE

- a. The Hauler shall receive and haul wastewater sludge daily and must have the capability to haul up to six trailers a day, seven days a week from the RWQCP. The City reserves the right to make modifications in this schedule to meet the needs of the City.
- b. Loading, unloading, and treatment may be required on both a daily scheduled and as-required basis, according to the requirements of the City. The Hauler shall develop, for approval, a pickup and delivery schedule with the Project Manager. The Hauler shall be required to respond to all requests for service within twenty-four (24) hours. The RWQCP operates year round, and it is mandatory that the Hauler be available to perform the work all 365 days of the year.
- c. If the Hauler coordinates with the City in advance, it may be possible to store sludge onsite at the RWQCP in the sludge cake bins and upstream sludge tanks for a short period over specific and limited number of holidays (e.g., Easter, Thanksgiving, Christmas, and New Year's). It is the Hauler's responsibility to coordinate with treatment sites to see if they are open on specified holidays before taking a load to a specific treatment site.
- d. The RWQCP designated-operator-in-charge will normally dispatch its requested number of next-morning loadouts via email between 2:00 and 3:00 p.m. This estimate would normally be based on what is on hand in the three sludge cake bins to provide for full and time-efficient loadouts of about 25 wet tons per trailer.
- e. When RWQCP dispatches up to three loads a day, all loadouts shall be completed and truck offsite by 6:00 a.m. the following morning. When four or more loads a day are dispatched (uncommon), loadouts may be scheduled for after 6:00 a.m. If a Hauler wishes to use a single driver for up to two loads, it will be the Hauler's responsibility to work with treatment sites about their receiving hours. The City makes no guarantee about operating hours for treatment sites or treatment site charges for modifying operating hours outside of what is listed in Section 10.b.

8. HAULING REQUIREMENTS

- a. The sludge shall become the property of the Hauler at the time the material is

deposited in the Hauler's trailer. Hauler shall not commingle sludge from another facility prior to delivery for final treatment and disposal.

- b. The Hauler shall be responsible for all transportation, holding, and unloading. The Hauler shall ensure that trailers are completely empty when they arrive at the RWQCP. The Hauler shall further ensure that the exterior of the truck and trailer is clean prior to leaving the RWQCP and the treatment/disposal site destination. The Hauler shall be responsible for coordination with appropriate authorities to conduct acceptable unloading operations to meet both City and the treatment/disposal site's requirements.
- c. *Emergency / Spill Response Plan:* The Hauler must submit to the City an Emergency / Spill Response Plan within three (3) weeks of Agreement award to the Project Manager. The Hauler will ensure that their drivers are properly trained to carry out this Plan in the event of a spill. No hauling will be permitted until the Plan is received and approved by the City. In the event of a spill, the Hauler must immediately report it to the City and clean up the material to the satisfaction of governing authorities and the RWQCP. If the Hauler does not clean the spill, the City may clean the spill and back-charge the Hauler for all costs. A "spill" as used herein includes tracking of residuals onto public roads.
- d. The Hauler must have and maintain for the term of the Agreement all hauling permits needed for the work under this Agreement.
- e. The Hauler must furnish only experienced and skilled operators and other personnel as required. Hauler must ensure that employed workers have proper and valid licenses and/or certifications. The Hauler shall, at the request of the City, supply proof of these licenses and/or certifications.
- f. The Hauler shall be responsible for controlling and abating any odor, spillage, insect, vermin, or any other nuisance arising from the operation.
- g. City shall provide plant process water (nonpotable, aka W4 at 90 psi) and a wash down area in the truck loadout bay, which is to be used by the Hauler to keep the loading site at the RWQCP and trucks clean and free of spillage before leaving the RWQCP. The City will provide two 1.5" nonpotable (W4) water stations with 1.5" hoses in the truck loadout bay. One is at the front of the loadout bay and one on the back side, both on the passenger side of the truck. After use, the Hauler is to put hoses away on hose stations before leaving. Any spillage or discharge of material to City or public roads shall be cleaned up promptly by the Hauler. If the City is required to clean up any spillage or discharge, all costs incurred including direct and administrative costs shall be reimbursed by the Hauler or withheld from Hauler payments.

- h. The Hauler shall provide water for all vehicles used in hauling wastewater sludge to complete wash down before leaving the treatment/disposal site. The interior of trailers, as well as all exterior surfaces, including tires and mud flaps shall be completely hosed down to minimize tracking of wastewater sludge off of the treatment/disposal site.
- i. The Hauler shall provide immediate cleanup of any spill during the transportation of the wastewater sludge. The Hauler shall be fully responsible for all costs associated with the cleanup or mitigation of spills during the transportation of wastewater sludge. In addition to any other required notifications, the Hauler shall immediately notify the City by telephone at (650) 329-2598 of any spillage of wastewater sludge along the haul route and the estimated time for cleanup to be completed. The Hauler shall provide a written report within five (5) days describing any spillage incident, including at a minimum, the date, time, and location of the spill, the amount of material spilled, the methods used to clean up the spill, the cause of the spill, steps taken to prevent reoccurrence of a similar spill, and certification that the spill has been cleaned up to the satisfaction of any and all agencies having jurisdiction. Hauler will train their staff and comply with Palo Alto Emergency and Spill Response Plan.
- j. It is further the Hauler's responsibility to be cognizant of all the factors involved in furnishing labor and equipment to dispose of raw sludge including transportation, hauling, delivery and unloading of wastewater sludge from the RWQCP. Such factors include, but are not limited to, complete familiarity with the layout of the City's facilities. The Hauler shall have complete familiarity with all access roads to the RWQCP facility, including difficulties involved in maneuvering large vehicles in confined areas. Hauler shall have available an adequate number of vehicles and trained, knowledgeable drivers to haul sludge and be able to keep a close liaison with City staff concerning scheduling or any problems related to production rates.
- k. Drivers must ensure that all trucks have tailgate pins, chains, and alternate/secondary locking mechanisms in place while loaded and before leaving any site. Hauler shall use public highways and designated truck routes, ensuring that laden trucks are not left parked in high-traffic areas for extended periods of time. Hauler shall understand truck routes and traffic conditions along routes. Hauler is responsible for freeing any incapacitated truck, traffic delays, weather impacts, and road conditions.
- l. Hauler shall report any significant hauling incidents, including but not limited to spills, accidents and substantial delays, to the City's project manager within three (3) hours of an occurrence. The Hauler must make all reasonable attempts to contact the City immediately following an incident. Regardless of

contact being made with the City, the Hauler is expected to use best management practices for immediate corrective action. Upon notification of the City, incidents will be investigated. If required, Hauler shall resolve the incident. City may also identify problems such as contaminated or misplaced loads. If the incident is not resolved, the Hauler may receive a formal warning. Significant incidents include, but are not limited to, such things as:

- i. Delays of loading, hauling, or dumping of 48 hours or more;
 - ii. Spills of any size (including any tracking of sludge onto public roads);
 - iii. Traffic accidents;
 - iv. Damage to equipment, persons, or property; and
 - v. Any other incidents outside normal operations
- m. Hauler is to have in place a 24/7 on-call emergency services agreement with a large truck mechanic(s) to deal with any truck mechanical breakdowns at the RWQCP or on other roads to and from the RWQCP. Mechanical breakdowns shall be communicated to the RWQCP.

9. HAULING EQUIPMENT

- a. Hauler must operate and maintain trucks per USDOT regulations.
- b. The Hauler's truck fleet must be California Air Resources Board (CARB) compliant including a truck fleet with engines that are 2010 or newer engine model year.
- c. Hauler's trailers must hold 21 tons minimum.
- d. Hauler is to provide leak-proof aluminum or stainless steel trailers with seals, tailgate seals, and wide splashguards as a requirement for hauling wastewater sludge. Each trailer shall be appropriate for wastewater sludge containment and equipped with covers (canvas or suitable alternative material) that can be securely fastened to reduce odors and contain wastewater sludge in case the trailer overturns. There shall be no gaps in the covering tarp that release odors from off-gassing, wind, and so forth. Any damages to the tarp shall be repaired immediately.
- e. All hauling trucks shall be equipped with a back-up alarm consisting of a warning horn or beep that will activate any time the truck is in reverse. Each vehicle shall be equipped with scraper, shovel, broom, and other tools as necessary to allow the driver to clean vehicle and respond to drips or small spills.
- f. The Hauler shall be solely responsible for the condition of its equipment. All

equipment shall be properly maintained. Only equipment in good working condition as judged by the City is acceptable. The City may reject pieces of equipment found to be in unsatisfactory condition or performing unsatisfactory work. In the event of any rejection by the City, the Hauler must remove the unsatisfactory equipment and replace it with good and acceptable equipment immediately.

- g. The Hauler shall provide the City with a list of identification numbers and maximum legal load limit for all wastewater sludge hauling trailers being utilized under this Agreement. Hauler shall conspicuously mark each trailer unit with the maximum legal weight of the unit when loaded and a corresponding "full load" indicator inside the trailer to guide loading.
- h. The City will not be responsible for loss or damage of any equipment or property owned or operated by the Hauler, its agents, or employees on or off City property.
- i. Hauler shall ensure that gas/oil/hydrocarbon spill-containment kits are kept on each truck and/or piece of equipment in use, and drivers are trained in their use. Each truck is to have potable water and a first aid kit.
- j. Except as noted in Section 6.m above, trucks with sleeper cabs are not authorized due to length requiring exit door to remain open.

10. UNLOADING REQUIREMENTS AT TREATMENT SITE

- a. If the Hauler must use an emergency backup alternative because a primary treatment/disposal site (as identified in subsection (b) below) is not available, the Hauler must consult with the City prior to deposit at the backup alternative. The City reserves the right to refuse "landfill disposal" as an alternative to other emergency backup options that may cost more; the City may elect to dispose at the landfill or pay the higher hauling and disposal cost for another site, at its own discretion.
- b. Sludge shall be hauled to one of the two sites below in quantities to be determined by the City (these sites are the primary treatment/disposal sites):
 - i. Lystek International Limited Organic Material Recovery Center on the site of Fairfield-Suisun Sewer District (FSSD) 1010 Chadbourne Rd, Fairfield, CA 94534
 - 1. Operating Hours 0400 – 2000, 7 days per week
 - 2. Receiving Hours 24 / 7
 - 3. 6,500 tons per year minimum, which is the City's contracted minimum obligation with Lystek

4. Annual contract year target for Lystek will be 8,400 tons per year
- ii. Synagro Central Valley Compost Facility (CVC) 13757 Harmon Rd, Dos Palos, CA 93620
 1. Operating Hours 0600 – 1700, 7 days per week
 2. 10,000 tons per year minimum, which is the City's contracted minimum obligation with Synagro
 3. Annual contract year target for Synagro will be all tons beyond the 8,400 tons per year to Lystek and 10,000 contracted tons with Synagro
- c. Hauler shall provide (and update as required) a current list of sites where wastewater sludge is being unloaded and disposed, as needed when unloading and disposal sites change.
- d. The Hauler shall make the listed site(s) available to receive the wastewater sludge at all times in accordance with provisions of the treatment/disposal site(s) permit. Provisions shall be made to accept the wastewater sludge during wet-weather periods as well as dry-weather periods.
- e. The City is not responsible for any delays at the treatment/disposal site. All additional charges are the responsibility of the Hauler.
- f. Hauler is to follow the procedures, safety practices, and rules established by any treatment/disposal site used, including the treatment and backup disposal sites listed in this section and Exhibit C to this Agreement. Prior to the start of the services under this Agreement, Hauler shall have an approved permit and/or agreement in place with the treatment/disposal sites for the term of the Agreement. Hauler shall have needed training completed prior to the start of service. The Hauler shall meet insurance requirements of the treatment/disposal facilities, including, but not limited to, additional insured requirements.
- g. The split of loads between Lystek, Synagro, and any future addition or deletion of treatment site(s) during the term of the Contract shall be as established by the project manager and communicated to the Hauler. The split targets will be actively managed by the Hauler to meet the target split. Adjustments to meet annual minimums listed in Section 10.b above shall be made on a regular basis. Initial targeted split will be as follows:
 - i. 60% of weekly loads to Synagro
 - ii. 40% of weekly loads to Lystek

11. SAFETY REQUIREMENTS AND TRAINING Hauler shall provide initial training, in the presence of RWQCP operations staff, for all new drivers for the purpose of safe and proper operation of the loadout equipment. At a minimum, drivers shall learn proper procedures for check-in, communication, paperwork, safe loading and use of switches to control gates and screws in proper sequence, expectations on full loadouts and movement of truck between bins, trailer contamination prevention, safety PPE at RWQCP, odor control best practices, entry and exit door use, tarping practices, orientation to bathroom facilities, clean-up, spill response, and safe driving routes and speeds in and out of the RWQCP and on Embarcadero Road. Hauler shall provide documentation of this training to the City's Project Manager for each driver and shall be responsible for all costs associated with this training.

12. PAYMENT AND PRICING CONDITIONS

- a. See Contract, Section 8, Invoicing.
- b. Payment for work is to be made on a wet tonnage basis as determined by weight tickets at the Treatment Facility. The Treatment Facility will generate a legible, licensed weighmaster's certificate showing gross weight, tare weight, and net weight of each truckload of material. Weight will be based on a certified scale owned, operated, and maintained by the Treatment Facility. The weight tickets shall be provided to the Hauler by the Treatment Facility, used by Hauler for invoicing City, and kept on file by Hauler for review by City as needed.
- c. Full compensation for completing Agreement work is included in the unit prices paid for the various items of work and no separate payment will be made therefor.
- d. If Hauler's owned or leased sludge trailers that are damaged by the City, the Hauler may repair and invoice City at a quoted hourly rate for labor and parts invoiced at no more than cost plus 30%, provided that: (i) Hauler provides City with notice of damage immediately upon discovery, (ii) Hauler submits to City documentation of damage within two business days of discovery, (iii) Hauler provides City with an opportunity to inspect the damage prior to repair, and (iv) City approves the claim for damage including estimated repair cost.
- e. If during the course of the Agreement, a new treatment site is identified, the Hauler shall be requested to provide pricing per wet ton to haul sludge to that treatment site using the same terms and conditions as in this contract. This additional pricing will be incorporated through amendment to the contract at the time the City Council approves sludge hauling services to the new treatment site (e.g., through a new RFP or other competitive process).

13. DOCUMENTATION, PERMITS, AND INSURANCE

- a. The Hauler shall maintain all required permits to perform the services during the term of this Agreement.
- b. The Hauler shall, at all times during the transportation, storage, and disposal of sludge to be managed under this Agreement, know the location, condition and status of each item being managed.

14. GUARANTEE. The Hauler warrants and guarantees that equipment used are of the type and quality specified herein. If in the opinion of the City, the equipment is found to be imperfect or of a grade inferior to that set forth in the requirements or are found to be deficient against any other standard set forth in the Agreement, they will be rejected and must be replaced without expense to the City.

- a. The Hauler understands that prompt pickup and disposal of sludge is critical to RWQCP operations. The Hauler warrants and guarantees to meet requirements set forth in this Agreement, including this scope of services.
- b. In the event of failure to comply with the abovementioned conditions within a reasonable time after notice, the City will take all necessary steps to dispose of the sludge, at the expense of the Hauler, who agrees to pay the costs and charges therefore immediately upon demand.
- c. The signing of the Agreement by the Contractor shall constitute execution of the above guarantees.

15. GOODS TO BE SUPPLIED AND WORK TO BE PERFORMED. The Hauler shall perform all work necessary to complete the Agreement in a satisfactory manner. Unless otherwise provided, the Hauler shall furnish and provide all materials, equipment, tools, labor and incidentals necessary to transport, haul, deliver and unload per these specifications.

16. CONTACT PERSONNEL

- a. The CITY contact for this Project is James Allen. His phone number is 650-329-2243. In the event that he is not available, CONTRACTOR shall call the main phoneline for the RWQCP, 650-329-2598.
- b. The CONTRACTOR's main contact is Chris Marks. He can be reached at 714-799-0801.

END OF SECTION

Exhibit A-1 Palo Alto Sludge Characteristics**2016, 2017, 2020 Average Annual Wastewater Sludge Quality Data:
40CFR503 Sludge Regulation Trace Metal Analysis on Sludge**

Trace Metals	Dry-Weight Units	503.13 Ceiling Concentration Table 1	503.13 Pollutant Concentration Table 3	2020 Average Annual Result	Single Results
Arsenic (As)	mg/kg	75	41	DNQ ^c 1.39	--
Antimony (Sb)	mg/kg	--	--	--	ND<19 ^b
Barium (Ba)	mg/kg	--	--	--	50.2 ^b
Beryllium (Be)	mg/kg	--	--	<0.11	ND ^{a, b}
Cadmium (Cd)	mg/kg	85	39	<0.632	--
Chromium (Cr)	mg/kg	--	--	11.44	--
Cobalt (Co)	mg/kg	--	--	--	ND<2 ^b
Copper (Cu)	mg/kg	4300	1500	253	--
Iron (Fe)	mg/kg	--	--	--	2650 ^b
Lead (Pb)	mg/kg	840	300	10.06	--
Mercury (Hg)	mg/kg	57	17	0.683	--
Molybdenum (Mo)	mg/kg	75	n/a	8.75	4.4 ^a ; ND<4 ^b
Nickel (Ni)	mg/kg	420	420	10.98	--
Selenium (Se)	mg/kg	100	100	5.28	6.3 ^a ; ND<17 ^b
Silver (Ag)	mg/kg	--	--	0.610	ND<4 ^b
Thallium (Tl)	mg/kg	--	--	--	ND<13 ^b
Vanadium (V)	mg/kg	--	--	--	5.97 ^b
Zinc (Zn)	mg/kg	7500	2800	511	520 ^a ; 166 ^b
Total Solids	%	--	--	28.8	--

^a Sampled 2/7/17 on 25% sludge cake; ^b Sampled 2/9/17 on 27% sludge cake; ^c DNQ = estimated result, value detected above MDL (method detection limit) and below RL (reporting limit)

February 17, 2017 Scum Quality Data: 40CFR503 Sludge Regulation Trace Metal Analysis on Scum

Trace Metals	Dry-Weight Units	503.13 Ceiling Concentration Table 1	503.13 Pollutant Concentration Table 3	Result
Arsenic (As)	mg/kg	75	41	ND
Beryllium (Be)	mg/kg	--	--	ND
Cadmium (Cd)	mg/kg	85	39	0.14
Chromium (Cr)	mg/kg	--	--	3.1
Copper (Cu)	mg/kg	4300	1500	30
Lead (Pb)	mg/kg	840	300	1.28
Mercury (Hg)	mg/kg	57	17	<0.0397
Molybdenum (Mo)	mg/kg	75	n/a	1.7
Nickel (Ni)	mg/kg	420	420	1.9
Selenium (Se)	mg/kg	100	100	<0.83
Zinc (Zn)	mg/kg	7500	2800	100
Total Solids	%	--	--	30.0

General Raw Sludge Characterization

Trace Metals	Dry-Weight Units	Result	Sample date, comment
Total Kjeldahl Nitrogen (TKN)	mg/kg	44,000; 10,000	2/7/17 (25% cake); 2/9/17
Organic Nitrogen (25% sludge cake)	mg/kg	38,000	2/7/17
Ammonia-Nitrogen (25% sludge cake)	mg/kg	5,600	2/7/17
Grit Analysis: total residual solids in 30% sludge cake	%	0.52%	2/9/17 (dried at 103-105C)
Primary sludge volatile solids concentration	%	89%	2/7/13
Waste activated sludge (WAS) volatile solids concentration	%	80%	Typical value
Ratio Primary / Total Sludge	%	71 – 78%	2013 value
Ratio WAS / Total Sludge	%	22 – 29%	2013 value
Primary Sludge BTU Content – Dry	BTU/lb	8000	8/21/12 ASTM D5865-07a
WAS BTU Content – Dry	BTU/lb	7400	8/21/12 ASTM D5865-07a

EXHIBIT B
SCHEDULE OF PERFORMANCE

CONTRACTOR shall perform the sludge treatment and disposal services in Exhibit A (Scope of Services) in accordance with Section 7 and 1 of Exhibit A.

EXHIBIT C SCHEDULE OF FEES

CITY shall pay CONTRACTOR according to the following rate schedule. The maximum amount of compensation to be paid to CONTRACTOR, including both payment for services and reimbursable expenses, shall not exceed the amounts set forth in Sections 5 and 6 of the Agreement. Any services provided or hours worked for which payment would result in a total exceeding the maximum amount of compensation set forth herein shall be at no cost to CITY.

Hauler Unit Prices US \$/wet ton				
		To Lystek	To Synagro	Y2, Y3 Increases on Contract Year Anniversary Date
Unit Price		\$ 30.25	\$ 34.00	CPI-U
CPI-U = See Contract Section 6, Compensation During Additional Terms				
Hauler Backup Sites to Landfill (LF) and Unit Prices in \$/wet ton				
	Portrero Hills LF Haul	Portrero Hills LF Haul & Disposal	Altamont LF Haul	Altamont LF Haul & Disposal
Unit Price	\$ 32.25	\$ 107.00	\$ 30.25	n/a

Pricing: Unit prices will be in US dollars and are price per wet ton for a term of contract. The unit price per wet ton includes all fees, taxes, and surcharges.

Miscellaneous

- a. Year 2 and Year 3 increases shall be on contract year anniversary date. Contract year anniversary date is defined as April 1, 2023 and April 1, 2024 for year 2 and 3, respectively. Year 2 CPI-U will be based on the index in February 2023. Year 3 CPI-U will be based on the index in February 2024.
- b. Truck washout charges are to be included in the pricing.
- c. In case of price increase due to new regulatory fees, Hauler must notify the City of Palo Alto in writing, and City approval of additional fees will require a Contract amendment before any additional fees will be authorized.
- d. Demurrage will not be charged for pickup of sludge up to and including 60 minutes of loading time. After 60 minutes, the demurrage charge of \$95/hour will apply if the City causes the delay.

- e. Demurrage will not be charged for delays caused by the Hauler not having proper paperwork at the time of arrival at the RWQCP site.
- f. A California No. 2 diesel ultra-low sulfur fuel surcharge is to be added to Hauler or credited to Palo Alto on a monthly basis. The monthly average cost of diesel fuel will be adjusted each month as determined from the California Energy Information Administration (EIA) website (www.eia.gov). The baseline amount of \$4.205/gallon will be used from the weekly value of diesel fuel (effective 7/19/21). A Hauler fleet fuel efficiency of 5.5 miles per gallon and a truckload of 25 tons will be used for purposes of calculation.
 - i. To Lystek International: $\text{Surcharge/Credit} = (\text{EIA monthly average cost of diesel in California} - \$4.205) * 162 \text{ miles round trip} * 1 / 5.5 \text{ miles per gallon} * 1 / 25 \text{ tons}$
 - ii. Synagro Central Valley Composting: $\text{Surcharge/Credit} = (\text{EIA monthly average cost of diesel in California} - \$4.205) * 228 \text{ miles round trip} * 1 / 5.5 \text{ miles per gallon} * 1 / 25 \text{ tons}$
- g. If a minimum load of 21 wet tons, compliant with the terms of Exhibit A Section 6.i, is not met, then Hauler is authorized to invoice for a charge of a full load of 21 wet tons.
- h. An allowance of up to \$10,000 is authorized on a reimbursement basis to develop a written respiratory protection program, perform initial and recurring qualitative or quantitative respirator fit testing, and obtain initial qualified medical clearance for employees to wear a respirator. This allowance can be used for new company drivers that are added to provide loadouts at the RWQCP. Contractor is responsible for all costs of maintaining the written respiratory protection program after the \$10,000 allowance is reimbursed, and any additional revisions or maintenance of policies will be provided to Palo Alto at no cost.

EXHIBIT D INSURANCE REQUIREMENTS

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

AWARD IS CONTINGENT ON COMPLIANCE WITH CITY'S INSURANCE REQUIREMENTS, AS SPECIFIED, BELOW:

REQUIRED	TYPE OF COVERAGE	REQUIREMENT	MINIMUM LIMITS	
			EACH OCCURRENCE	AGGREGATE
YES YES	WORKER'S COMPENSATION EMPLOYER'S LIABILITY	STATUTORY STATUTORY		
YES	GENERAL LIABILITY, INCLUDING PERSONAL INJURY, BROAD FORM PROPERTY DAMAGE BLANKET CONTRACTUAL, AND FIRE LEGAL LIABILITY	BODILY INJURY	\$2,000,000	\$2,000,000
		PROPERTY DAMAGE	\$2,000,000	\$2,000,000
		BODILY INJURY & PROPERTY DAMAGE COMBINED.	\$2,000,000	\$2,000,000
YES	AUTOMOBILE LIABILITY, INCLUDING ALL OWNED, HIRED, NON-OWNED	BODILY INJURY	\$2,000,000	\$2,000,000
		- EACH PERSON	\$2,000,000	\$2,000,000
		- EACH OCCURRENCE	\$2,000,000	\$2,000,000
		PROPERTY DAMAGE	\$2,000,000	\$2,000,000
		BODILY INJURY AND PROPERTY DAMAGE, COMBINED	\$2,000,000	\$2,000,000
NO	PROFESSIONAL LIABILITY, INCLUDING, ERRORS AND OMISSIONS, MALPRACTICE (WHEN APPLICABLE), AND NEGLIGENT PERFORMANCE			
		ALL DAMAGES	\$1,000,000	
YES	POLLUTION LIABILITY		\$2,000,000	
YES	THE CITY OF PALO ALTO IS TO BE NAMED AS AN ADDITIONAL INSURED: CONTRACTOR, AT ITS SOLE COST AND EXPENSE, SHALL OBTAIN AND MAINTAIN, IN FULL FORCE AND EFFECT THROUGHOUT THE ENTIRE TERM OF ANY RESULTANT AGREEMENT, THE INSURANCE COVERAGE HEREIN DESCRIBED, INSURING NOT ONLY CONTRACTOR AND ITS SUBCONSULTANTS, IF ANY, BUT ALSO, WITH THE EXCEPTION OF WORKERS' COMPENSATION, EMPLOYER'S LIABILITY AND PROFESSIONAL INSURANCE, NAMING AS ADDITIONAL INSURED CITY, ITS COUNCIL MEMBERS, OFFICERS, AGENTS, AND EMPLOYEES.			

- I. INSURANCE COVERAGE MUST INCLUDE:
 - A. A CONTRACTUAL LIABILITY ENDORSEMENT PROVIDING INSURANCE COVERAGE FOR CONTRACTOR'S AGREEMENT TO INDEMNIFY CITY.
- II. CONTACTOR MUST SUBMIT CERTIFICATE(S) OF INSURANCE EVIDENCING REQUIRED COVERAGE AT THE FOLLOWING URL:
<https://www.planetbids.com/portal.cfm?CompanyID=25569>
- III. ENDORSEMENT PROVISIONS, WITH RESPECT TO THE INSURANCE AFFORDED TO "ADDITIONAL INSURED"

A. PRIMARY COVERAGE

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

B. CROSS LIABILITY

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

C. NOTICE OF CANCELLATION

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

Vendors are required to file their evidence of insurance and any other related notices with the City of Palo Alto at the following URL:

<https://www.planaetbids.com/portal.cfm?CompanyID=25569>

OR

https://www.cityofpaloalto.org/gov/depts/asd/planet_bids_how_to.asp

Attachment B
RFQ 183016 Sludge Hauling Services
Bid Summary

Bid Item	Quantity¹	Units	For	Denali Water Solutions, LLC Unit Price² (\$/WT³)	Denali Water Solutions, LLC Contract Year 1 Bid Total (\$)
1	13,800	WT	Hauling to Synagro CVC	\$34.00	\$469,200
2	9,200	WT	Hauling to Lystek International Limited Organic Material Recovery Center	\$30.25	\$278,300
3	1	Lump Sum	Allowance for Respirator Protection Program	--	\$10,000
Total of Bid Items 1 to 3 in \$					\$757,500
Bid Schedule Notes: ¹ Sludge production estimate for bid purposes only (see scope of services Section 4 for more information) ² Unit prices shall be listed for service year 1, which runs from April 1, 2022 to March 30, 2023; future contract year increases to the unit price bid herein will be based on CPI-U per Contract Section 6 "Compensation During Additional Terms" ³ WT – US wet tons					

Other Denali Water Solutions, LLC bid prices:

Hauling to Portrero Hills Landfill - \$32.32 / wet ton

Hauling to Portrero Hills Landfill & Disposal - \$107.00 / wet ton

Hauling to Altamont Landfill - \$30.25 / wet ton



City of Palo Alto City Council Staff Report

(ID # 13798)

Meeting Date: 1/24/2022

Title: Review and Acceptance of Annual Status Report on Development Impact Fees for Fiscal Year 2021

From: City Manager

Lead Department: Administrative Services

RECOMMENDATION

Staff recommends that the City Council review and accept the Annual Report on Development Impact Fees for the period ending June 30, 2021 (Attachment A).

BACKGROUND

State law (Government Code Section 66006) requires that each local agency that imposes development impact fees prepare an annual report providing specific information about those fees. This requirement is part of the law commonly referred to as AB 1600. It codifies the legal requirement that fees on new development must have the proper nexus to any project on which they are imposed. In addition, AB 1600 imposes certain accounting and reporting requirements with respect to the fees collected. The fees, for accounting purposes, must be segregated from the general funds of the City and from other funds or accounts containing fees collected for other improvements. Interest on each development fee fund or account must be credited to that fund or account and used only for the purposes for which the fees were collected.

Government Code Section 66006 contains comprehensive annual reporting requirements for development impact fees. This statute requires that, within 180 days after the close of the fiscal year, the agency that collected the fees must make available to the public the following information regarding each fund or account:

- Brief description of the type of fee in the fund.
- Amount of the fee.
- Beginning and ending balance in the fund.
- Amount of fees collected and interest earned.

- Identification of each public improvement on which fees were expended and the amount of the expenditure on each improvement, including the total percentage of the cost of the public improvement that was funded with fees.
- Identification of an approximate date by which the construction of a public improvement will commence, if the local agency determines that sufficient funds have been collected to complete financing on an incomplete public improvement.
- Description of each interfund transfer or loan made from the account or fund, including the public improvement on which the loaned funds will be expended, and in the case of an interfund loan, the date on which the loan will be repaid and the rate of interest that the account or fund will receive on the loan.
- Amount of any refunds made due to inability to expend fees within the required time frame.

This report must also be reviewed by the City Council at a regularly scheduled public meeting not less than 15 days after the information is made available to the public. In addition, notice of the time and place of the meeting shall be mailed at least 15 days prior to the meeting to any interested party who files a written request with the local agency for such a mailed notice. An early packet consisting of Exhibit A only was made available to the public and included in the packet for the December 13, 2021 meeting of the City Council ([CMR 13444](#)).

The law also provides that, for the fifth fiscal year following the first deposit into the fund and every five years thereafter, the local agency shall make findings with respect to any portion of the fee remaining unexpended, whether committed or uncommitted. The finding must:

- identify the purpose to which the fee is to be put;
- demonstrate a nexus between the fee and the purpose for which it was originally charged; and
- identify all sources and amounts of funding anticipated to complete financing of incomplete improvements along with the approximate dates on which the anticipated funding is expected to be deposited into the fund.

If the agency no longer needs the funds for the purposes collected, or if the agency fails to make required findings, or to perform certain administrative tasks prescribed by AB 1600, the agency may be required to refund to property owners a prorated portion of the monies collected for that project and any interest earned on those funds.

DISCUSSION

The City of Palo Alto development fees potentially covered by AB 1600, and documented in Attachment A, include the following:

- Stanford Research Park/El Camino Real traffic impact fees (PAMC Ch. 16.45): Fee for new nonresidential development in the Stanford Research Park/El Camino Real Service Commercial zone, to fund capacity improvements at eight intersections. City ceased collecting effective fiscal year 2020.
- San Antonio/West Bayshore Area traffic impact fees (PAMC Ch. 16.46): Fee for new nonresidential development in the San Antonio/West Bayshore area to fund capacity improvements at four intersections. City ceased collecting effective fiscal year 2020.
- Housing impact fees imposed on commercial developments (PAMC Ch. 16.65): Fee on commercial and industrial development to offset the demand that new jobs create for low income and moderate-income in the City.
- Parks, Community Centers, and Libraries impact fees (PAMC Ch. 16.58): Fee on new residential and non-residential development to provide community facility funds for parks, community centers, libraries, public safety, and general government.
- Charleston-Arastradero Corridor pedestrian and bicyclist safety fees (PAMC Ch. 16.60): Fee on new development and re-development within the Charleston-Arastradero Corridor to provide for pedestrian and bicyclist improvements.
- Citywide Transportation impact fees (PAMC Ch 16.59): Fee on development in all parts of the City to fund transportation projects and programs to reduce congestion.
- Public Safety facilities (PAMH Ch. 16.58): Fee on residential and non-residential development to fund police and fire facilities, including fire apparatus and vehicles.
- General Government facilities (PAMH Ch. 16.58): Fee on residential and non-residential development to fund facilities associated with municipal administration.
- Residential (Rental) impact fees (PAMC Ch. 16.65) Fee on rental residential developments (including mixed use with rental housing) to offset the demand that new market-rate rental housing creates for low and moderate-income housing in the City.
- Public Art in-lieu fees (PAMC 16.61): Fee on private developments for public art.
- Parkland dedication in-lieu fees (Quimby Act) (California Government Code Section 66477): Fee or parkland dedication imposed on new residential and non-residential development. This fee is likely not subject to the AB 1600 reporting requirement but is included in the interest of transparency.

- Parking in-lieu fees for University Avenue Parking District (PAMC Ch. 16.57): Fee on new non-residential development in the University Avenue Parking Assessment District in lieu of providing required parking spaces. This fee is likely not subject to the AB 1600 reporting requirement but is included in the interest of transparency.
- Residential housing in-lieu fees (PAMC Ch. 16.65): Fee on ownership residential developments of three or more units (including mixed use with ownership housing) in-lieu of providing required below-market rate units to low- and moderate-income households. This fee is likely not subject to the AB 1600 reporting requirement but is included in the interest of transparency.
- Water and sewer capacity fees (California Government Code Section 66000): Fee on developments adding load to water and sewer systems. This fee is not subject to the AB 1600 reporting requirement but is included in the interest of transparency.

AB 1600 requires the City to make specified findings in the event any funds are not expended within five fiscal years of collection and every five years thereafter. While there are several funds containing collected fees that have not been expended in five years, the required statutory carryover findings have already been made for those funds in recent years and no further findings are required at this time.

STAKEHOLDER ENGAGEMENT

This report has been prepared by the Accounting Division in Administrative Services and reviewed by partner departments including the City Attorney's Office, and the Planning and Development Services Department.

RESOURCE IMPACT

These various funds are reviewed annually for any unallocated balances and the nexus of appropriate projects as part of the development of the City's five-year capital improvement plan.

There are no required findings in FY2021. The next finding date will be in fiscal year 2022 for Community Facilities (Parks, Community Centers and Libraries) and Charleston-Arastradero Corridor funds.

ENVIRONMENTAL REVIEW

Approval of this resolution does not constitute a project under the California Environmental Quality Act (CEQA), therefore, an environmental assessment is not required.

Attachments:

- **Attachment4.a:** Attachment A: Annual Report on Development Impact Fees FY 2021

Attachment A

City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2021

FUND	Stanford Research Park/ El Camino Fund	San Antonio/West Bayshore Fund
Purpose and Authority for Collection	Traffic impact fees imposed on new nonresidential development in the Stanford Research Park/El Camino Real CS zone to fund improvements at eight identified intersections. PAMC Ch. 16.45,	Traffic impact fees imposed on new nonresidential development in the San Antonio/West Bayshore Areas to fund capacity improvements at four identified intersections. PAMC Ch. 16.46
Amount of the Fee	City ceased collecting effective FY 2020	City ceased collecting effective FY 2020
Fund Balance July 1, 2020	\$3,497,771	\$443,857
<u>Activity in 2020-21</u>		
Revenues		
Interest Earnings	60,066	7,579
Unrealized Gain/(Loss) Investments	(38,098)	(16,440)
Total Revenues	\$21,968	(\$8,861)
Expenditures	-	-
Total Expenditures	-	-
Ending Balance June 30, 2021	\$3,519,739	\$434,996
Other Commitments/Appropriations		
Reserve for Unrealized Gain on Investments	(51,917)	(6,551)
Net Funds Available	\$3,467,822	\$428,445
	USE OF FEES: No expenditures have been made for this fund in Fiscal Year 2021. In FY 2020, City ceased collecting the Stanford Research / El Camino Real CS Zone fee established in 1989. FUTURE USE OF FEES: \$2.2M programmed in FY 2022 to fund Sharing Agreement between the County of Santa Clara and the City for improvements of Mill Road intersections at both Hanover Street and El Camino Real (CMR 13439).	USE OF FEES: No expenditures have been made for this fund in Fiscal Year 2021. In FY 2020, City ceased collecting the San Antonio/West Bayshore area fee established in 1986.

Attachment A

City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2021

FUND	Commercial Housing Impact Fee Fund	University Avenue Parking In-Lieu Fund
Purpose and Authority for Collection	Fees imposed on commercial and industrial development to offset the demand that new jobs create for low and moderate-income housing in the City PAMC Ch.16.65	Fees collected from non-residential development within the University Ave. Parking Assessment District in lieu of providing the required number of parking spaces. PAMC Ch 16.57
Amount of the Fee	Hotel / Retail / Other Non Residential: \$22.40 per sq. ft. Office/R&D: \$38.48 per sq. ft.	\$111,861.77 per space
Fund Balance July 1, 2020	\$25,428,649	\$6,384,494
<u>Activity in 2020-21</u>		
Revenues		
Fees Collected	606,996	-
Interest Earnings	159,746	109,638
Unrealized Gain/(Loss) Investments	(206,429)	(69,521)
Total Revenues	560,313	40,117
Expenditures		
Salaries and Benefit	(21,122)	
Liability Insurance	(621)	
Total Expenditures	(21,743)	-
Ending Balance June 30, 2021	\$25,967,219	\$6,424,611
Other Commitments/Appropriations		
Reserve for Notes Receivable include:\$1,290,000 for 2811 Alma, and \$4,137,254 for 801 Alma, \$7,700,000 for Bueva Vista Mobile Home Park. \$10,502,309 Wilton Court	(23,629,563)	
Reserve for Reappropriations	(1,167,061)	
Reserve for unrealized gain on investments	(108,891)	(94,763)
Net Funds Available	\$1,061,704	\$6,329,848
	USE OF FEES: Expenditures in Fiscal Year 2021 are \$21K for salaries and benefits. Reserve for Reappropriation is for Affordable Housing Loan Agreement: 3705 El Camino Real (Wilton Court).	USE OF FEES: No expenditures have been made from this fund in Fiscal Year 2021. FUTURE USE OF FEES: \$5.5M programmed in FY 2023 for New Downtown Parking Garage Project (PE-15007) as part of the 2022-2026 Capital Improvement Plan (CIP).

Attachment A

City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2021

FUND	Residential & Non-Residential Community Facilities Parks	Residential & Non-Residential Community Facilities Community Centers
Purpose and Authority for Collection	Fees imposed on new residential and non-residential development approved after Jan 28, 2002 for Parks. PAMC Ch. 16.58	Fees imposed on new residential and non-residential development approved after Jan 28, 2002 for Community Centers. PAMC Ch. 16.58
Amount of the Fee	Residential: Single family \$13,103 per residence (or \$19,565 per residence larger than 3,000 sq ft); Multi-family \$8,577 per unit (or \$4337 per unit smaller than or equal to 900 sq ft) Nonresidential: Commercial/Industrial \$5,564 per 1,000 sq ft or fraction thereof; Hotel/Motel \$2,516 per 1,000 sq ft or fraction thereof.	Residential: Single family \$3,499 per residence (or \$5,086 per residence larger than 3,000 sq ft); Multi-family \$2,235 per unit (or \$1,128 per unit smaller than or equal to 900 sq ft) Nonresidential: Commercial/Industrial \$314 per 1,000 sq ft or fraction thereof; Hotel/Motel \$142 per 1,000 sq ft or fraction thereof.
Fund Balance July 1, 2020	\$3,552,791	\$2,877,794
Activity in 2020-21		
Revenues		
Fees Collected	219,423	70,000
Interest Earnings	59,690	29,693
Transfer Development Rights (TDR)	-	40,000
Unrealized Gain/(Loss) Investments	(65,423)	(67,000)
Total Revenues	\$213,690	\$72,693
Operating Transfer to Capital Projects Fund	-	(2,199,344)
Total Expenditures	-	(2,199,344)
Ending Balance June 30, 2021	\$3,766,481	\$751,143
Other Commitments/Appropriations		
Reserve for unrealized gain on investments	(54,256)	(27,045)
Net Funds Available	\$3,712,225	\$724,098

USE OF FEES:

No expenditures have been made from
this fund in Fiscal Year 2021.

USE OF FEES:

\$400K Programmed in FY2022 for
Boulware Park Improvements (PE-17005);
\$500K programmed in FY 2022-2026 for
Dog Park Installation and Renovation (PG-
18001); and \$1.1M programmed in FY
2022-2026 for Park Restroom Installation
(PG-19000) as part of the 2022-2026 CIP.
\$350K has been recommended to fund a
restroom renovation at the Roth Building
(CMR 12307).

USE OF FEES:

Budget transfers of \$125K made to Capital
Improvement Fund Project for JMZ
Renovation (AC-18001) and \$2.1M made to
Capital Improvement Fund Project
Rinconada Park Improvements (PE-08001)
in Fiscal Year 2021.

Attachment A

City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2021

FUND	Residential & Non-Residential Community Facilities Libraries	Residential Housing In-Lieu Fund
Purpose and Authority for Collection	Fees imposed on new residential and non-residential development approved after January 28, 2002 for Libraries. PAMC Ch. 16.58	Fees collected from ownership residential developments of three or more units (including mixed used with ownership in housing) in-lieu of providing the required below-market rate units(s) to low and moderate income households. PAMC Chapter 16.65
Amount of the Fee	Residential: Single family \$1,187 per residence (or \$1,766 per residence larger than 3,000 sq ft); Multi-family \$710 per unit (or \$390 per unit smaller than or equal to 900 sq ft) Nonresidential: Commercial/industrial \$299 per 1,000 sq ft or fraction thereof; Hotel/Motel \$126 per 1,000 sq ft or fraction thereof.	Single family \$82.46 per sq. ft. Single family detached; \$54.97 per sq. ft. single family attached. Multi Family \$54.97 per sq. ft. condos.
Fund Balance July 1, 2020	\$1,248,514	\$24,981,378
Activity in 2020-21		
Revenues		
Fees Collected	29,138	4,939,497
Interest Earnings	18,746	147,730
Unrealized Gain/(Loss) Investments	(15,095)	(130,549)
Total Revenues	\$32,789	\$4,956,678
Expenditures		
Salaries and Benefits		(21,122)
Contract Services		(177,888)
Liability Insurance		(621)
Operating Transfer to Capital Projects Fund	(310,000)	
Total Expenditures	(310,000)	(199,631)
Ending Balance June 30, 2021	\$971,303	\$29,738,425
Other Commitments/Appropriations		
Reserve for Encumbrances		(21,973)
Reserve for unrealized gain on investments	(16,435)	(113,952)
Reserve for Notes Receivable include \$375,000 for 3053 Emerson, \$3,504,850 for Tree House Apts, \$747,734 for Sheridan Apts., \$2,285,026 for 801 Alma, \$901,201 for Palo Alto Housing Project, \$600,000 for 2811-2825 Alma St., \$203,561 for Colorado Park Housing, \$149,968 for El Dorado Palace, and \$6,800,000 for Buena Vista Mobile Home Park, \$8,249,601 for Wilton Ct.		(23,816,941)
Net Funds Available	\$954,868	\$5,785,559

Attachment A

City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2021

FUND	Residential & Non-Residential Community Facilities Libraries	Residential Housing In-Lieu Fund
	<p>USE OF FEES:</p> <p>Budget transfer \$310K in FY 2021 was made to Capital Improvement Fund Project for Library Auto Material Handling (LB-21000).</p> <p>FUTURE USE OF FEES:</p> <p>\$540K is programmed in FY 2022-2023 for LB-21000 as part of the 2022-2026 CIP. \$300K has been recommended to fund the City archives at the Roth Building (CMR 12307).</p>	<p>USE OF FEES:</p> <p>Expenditures in Fiscal Year 2021 were \$21K for salaries and benefit, \$178K for Palo Alto Housing Corp for BMR admin fees and for consultancy fees.</p>

Attachment A

City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2021

FUND	Charleston-Arastradero Corridor Pedestrian and Bicyclist Safety	Citywide Transportation
Purpose and Authority for Collection	Fees collected from new development and re-development within the Charleston- Arastradero Corridor to provide for pedest- rian and bicyclist safety improvements. PAMC Ch. 16.60	Transportation impact fees imposed on new development in all parts of the City to fund congestion reduction projects. PAMC Ch. 16.59
Amount of the Fee	Residential: \$1,435 per residential unit; Commercial: \$0.42 per sq ft	\$8,309 per net new PM peak hour trip
Fund Balance July 1, 2020	\$19,507	\$2,258,385
Activity in 2020-21		
Revenues		
Fees Collected	17,274	412,167
Interest Earnings	427	38,432
Unrealized Gain/(Loss) Investments	(84)	(27,114)
Total Revenues	\$17,617	\$423,485
Expenditures		
Operating Transfer to Capital Projects Fund	-	(400,000)
Total Expenditures	-	(400,000)
Ending Balance June 30, 2021	\$37,124	\$2,281,870
Other Commitments/Reappropriations		
Reserve for unrealized gain on investments	(418)	(33,600)
Net Funds Available	\$36,706	\$2,248,270
	USE OF FEES: No expenditure of funds have been made from this Fund in Fiscal Year 2021.	USE OF FEES: Budget transfer \$400K to Capital Project Fund in Fiscal Year 2021 was made for Traffic Signal and Intelligent Transportation (PL-05030). FUTURE USE OF FEES: \$2.0M programmed for PL-05030 as part of the 2022-2026 CIP.

Attachment A

City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2021

FUND	New Public Safety Facilities	General Government Facilities
Purpose and Authority for Collection	Fees imposed on residential and non-residential development to fund police and fire facilities (including fire apparatus and vehicles) PAMC Ch. 16.58	Fees imposed on residential and non-residential development to fund facilities associated with municipal administration. PAMH Ch. 16.58
Amount of the Fee	Residential: Single family \$1,139 per unit; Multi-family \$912 per unit Nonresidential: Commercial \$636 per 1,000 sq ft. or fraction thereof; Industrial \$213 per 1,000 sq. ft. or fraction thereof; Office/Institutional \$849 per 1,000 sq ft or fraction thereof.	Residential: Single family \$1,435 per unit; Multi-family \$1,147 per unit Nonresidential: Commercial \$801 per 1,000 sq ft. or fraction thereof; Industrial \$267 per 1,000 sq. ft. or fraction thereof; Hotel/Motel \$1,070 per 1,000 sq ft or fraction thereof.
Fund Balance July 1, 2020	\$455,912	\$574,118
Activity in 2020-21		
Revenues		
Fees Collected	46,199	58,210
Interest Earnings	4,769	7,452
Unrealized Gain/(Loss) Investments	(6,845)	(8,609)
Total Revenues	\$44,123	\$57,053
Expenditures		
Operating Transfer to Capital Projects Fund	(455,912)	(574,118)
Total Expenditures	(455,912)	(574,118)
Ending Balance June 30, 2021	\$44,123	\$57,053
Reserve for unrealized gain on investments	(3,717)	(4,691)
Net Funds Available	\$40,406	\$52,362
	USE OF FEES:	USE OF FEES:
	Budget transfer \$456K to Capital Project Fund in Fiscal Year 2021 was made for Public Safety Bldg Project (PE-15001).	Budget transfers are \$217K to Capital Project Fund for the JMZ Renovation (AC-18001) and \$357K to Capital Project Fund for the Civic Ctr Fire Life Safety (PE-18016) in Fiscal Year 2021.

Attachment A

City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2021

FUND	Residential Housing Impact Fee Fund	
Purpose and Authority for Collection	Fees imposed on all rental residential developments (including mixed use with rental housing) to offset the demand that the new market-rate rental housing creates for low income and moderate- income housing in the City. PAMC Ch. 16.65	
Amount of the Fee	Single and Multi-Family: \$21.99 per sq. ft. apartment (rentals)	
Fund Balance July 1, 2020		\$619,803
Activity in 2020-21		
Revenues		
Fees Collected		257,954
Interest Earnings		14,015
Unrealized Gain/(Loss) Investments		2,984
Total Revenues		\$274,953
Expenditures		-
Total Expenditures		-
Ending Balance June 30, 2021		\$894,756
Other Commitments/Reappropriations		
Reserve for Reappropriations		(600,040)
Reserve for unrealized gain on investments		(11,158)
Net Funds Available		\$283,558
USE OF FEES:		
No expenditure of funds have been made from this Fund in Fiscal Year 2021. Reserve for Reappropriations is for Affordable Housing Loan Agreement: 3705 El Camino Real (Wilton Court)		

Attachment A

**City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2021**

(INFORMATION ONLY)

FUND	Public Art Fund	Parkland Dedication
Purpose and Authority for collection	Fees imposed on new commercial developments (including mixed use projects), including new construction, remodels, additions and reconstruction that (i) have a floor area of 10,000 sq. ft. or more, and (ii) have a construction value of \$200,000, or more, exclusive of costs for architecture, design, engineering, and required studies; and all new residential projects of five or more units to fund public art for private developments. PAMC Ch. 16.61	Fees on parkland dedication imposed on new residential and non-residential development. Govt Code Sec. 66477 (Quimby Act)
Amount of the Fee	1% of first \$120.25 million construction valuation and 0.9% of construction valuation for valuation in excess of \$120.25 million	Single Family: \$66486.51 per unit; Multi-Family: \$45,819.54 per unit. This applies only to residential projects that require a subdivision or parcel map. Land dedication is required for subdivisions resulting in more than 50 parcels. Parkland Dedication Fee - Land: Single Family: 531 sq. ft. per unit; Multi-Family: 366 sq. ft. per unit. When parkland dedication applies, park impact fees do not apply.
Fund Balance July 1, 2020	\$1,732,560	\$5,014,090
Activity in 2020-21		
Revenues		
Fees Collected	291,934	862,942
Interest Earnings	30,944	76,192
Unrealized Gain/(Loss) Investments	(12,572)	(37,476)
Operating Transfer from General Fund	170,000	
Total Revenues	\$480,306	\$901,658
Expenditures		
Salaries and benefits	(201,529)	
Liability Insurance	(2,047)	
Total Expenditures	(203,576)	0
Ending Balance June 30, 2021	\$2,009,290	\$5,915,748
Other Commitments/Reappropriations		
Reserve for unrealized gain on investments	(27,702)	(80,769)
Net Funds Available	\$1,981,588	\$5,834,979
	<p>This fund is not subject to AB1600 requirements and is listed only for information purposes.</p> <p align="center">Page 9 of 10</p>	<p>This fund is not subject to AB1600 requirements and is listed only for information purposes.</p> <p>FUTURE USE OF FEES: In FY 2022, \$1.1M programmed to fund Boulware Park Improvements (PE-17005) and \$2.4M programmed to fund Byxbee Park Completion (PE-18006).</p>

Attachment A

**City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2021**

(INFORMATION ONLY)

FUND	Water and Wastewater Collection	
Purpose and Authority for Collection	Capacity fees charged to developers that are adding load to the water and sewer systems effective July 1, 2005.	
	California Government Code Sect 66000	
Amount of the Fee	<p>Water Capacity Fees: 5/8 in., 3/4 in E-Meter. \$3,750, 1 in. E-Meter \$6,250, 1 1/2 in. E-Meter \$18,850, 2 in. E-Meter \$31,250, 4 in. Compound Meter by est. \$125/FU (min. 5,000 FU) , 6 in. Compound Meter by est. \$125/FU (min. 7,000 FU)</p> <p>Fire Service Capacity Fees: 2 in. \$750, 4 in. \$8,425, 6 in. \$18,250, 8 in. \$30,950, 10in. \$48,110</p> <p>Sewer Capacity Charges: 4 in. connection with 5/8 in Water Meter (WM) \$5,250, 4 in connection. with 1-in WM \$10,500, 4 or 6 in. connection with 1-1/2 in WM \$31,668, 6 in. connection with 2 in. WM \$52,500, 6 in. and larger connection with 4 in. or larger WM by est. at \$210/FU</p>	
<u>Activity in 2020-21</u>		
Capacity Fees Collected		
Water		\$532,805
Wastewater Collection		<u>238,854</u>
Total		
	USE OF FEES:	
	The fees are used exclusively for water and sewer system improvements	



City of Palo Alto City Council Staff Report

(ID # 13876)

Meeting Date: 1/24/2022

Title: Acceptance of the Macias Gini & O’Connell Audit of the City of Palo Alto’s Financial Statements as of June 30, 2021 and the Management Letter; Approval of the FY 2021 Annual Comprehensive Financial Report (ACFR); and Amendments to the FY 2021 Budget in Various Funds

From: City Manager

Lead Department: Administrative Services

RECOMMENDATION

Finance Committee and Staff recommend that the City Council:

1. Accept the City of Palo Alto’s audited financial statements for the fiscal year ended June 30, 2021, and the accompanying reports provided by Macias Gini & O’Connell (“MGO”) LLP ([Office of the City Auditor Report](#)) Attachment. Reports include:
 - a. Report to the City Council (the “Management Letter”),
 - b. Cable TV Franchise, Independent Auditor’s Report and Statements of Franchise Revenues and Expenses for the years ended December 31, 2020 and 2019,
 - c. Palo Alto Public Improvement Corporation (a component unit of the City of Palo Alto) Annual Financial Report for the year ended June 30, 2021,
 - d. Regional Water Quality Control Plant, Independent Auditor’s Report and Financial Statements for the year ended June 30, 2021,
 - e. Independent Accountant’s Report on Applying Agreed-Upon Procedures related to the Article XIII-B Appropriations (GANN) Limit for the year ended June 30, 2021.
2. Approve the Fiscal Year (FY) 2021 Annual Comprehensive Financial Report (ACFR), included in [CMR #13501](#) (Attachment II) as Attachment C. An electronic copy is available at: <https://www.cityofpaloalto.org/files/assets/public/administrative-services/city-budgets/fy-2021-city-budget/city-of-palo-alto-acfr-fy2021-final.pdf>
3. Amend the Fiscal Year 2021 Budget Appropriation Ordinance for various funds as identified in [CMR #13501](#) *Recommended Amendments to the City Manager’s FY 2021 Budget* (Attachment II) as Attachment B – Exhibit 1 and various capital projects as identified in Attachment B – Exhibit 2. (Effective on first reading; five votes required.)

Hard copies of linked reports within this recommendation are available upon request.

SUMMARY

At the November 30, 2021 Finance Committee meeting, the Committee reviewed two staff reports: one transmitted by the City Auditor's Office and one by the City Manager's Office via the Administrative Services Department, and unanimously approved both reports for City Council consideration.

- Office of the City Auditor: Discussion and Recommendation to the City Council to Accept the Macias Gini & O'Connell's (MGO) Audit of the City of Palo Alto's Financial Statements as of June 30, 2021 and Management Letter. CMR 13784 packet pages 3-51. <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/finance-committee/2021/20211130/20211130pfcs.pdf>
- Administrative Services Department: Recommendation to Approve the Fiscal Year (FY) 2021 Annual Comprehensive Financial Report (ACFR) and Approve FY 2021 Budget Amendments in Various Funds. CMR #13501 packet pages 52-266. <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/finance-committee/2021/20211130/20211130pfcs.pdf>

MGO issued a clean opinion on each audit report and reported no findings with the Agreed-Upon procedures report. These reports transmitted the City's FY 2021 financials through the Annual Comprehensive Financial Report (ACFR) for the year ending June 30, 2021. As is customary, the City Council is required to close out the City's financial results at the end of each fiscal year.

The City's overall Net Position remains positive despite of the fiscal challenges resulting from the COVID-19 pandemic.

As outlined in the staff report to the Finance Committee, the General Fund ended with a \$49.1 million Budget Stabilization Reserve (BSR), a \$13.2 million, or 36.8 percent, increase when compared to FY 2020. The \$13.2 million BSR increase is driven mainly by a \$13.8 million surplus and changes in various General Fund Reserves (see Attachment II, Attachment C, Change in Fund Balance GAAP Basis on p. 37 of the ACFR). The revenues such as sales tax, property tax and documentary tax were higher than expected while expense savings were realized across many of the departments (see Attachment II, detailed in Attachment A). Although some the major taxes are higher than projected in the Adjusted Budget, the pandemic continues to impact the City's revenue with sales tax, transient occupancy tax, utility user tax, rental income, and charges for services, remaining lower compared to pre-pandemic revenues.

The General Fund ended FY 2021 with a \$49.1 million BSR; however, once adjusted for Council approved uses, the City's \$43.3 million BSR reflects a surplus of \$4.6 million compared to the Council recommended 18.5 percent target (\$38.7 million) of the FY 2022 Adopted Budget. Council approved use of the BSR to balance the FY 2022 Adopted Budget ([CMR 12307](#)) and to increase the Utilities Transfer Litigation Reserve ([CMR 13439](#)).

Stakeholder Engagement

This report has been prepared by the Administrative Service Department Accounting division and coordinated with the Office of the City Auditor and the Office of Management and Budget.

Resource Impact

The actions recommended in CMR 13501 (Attachment II), Attachment B, both Exhibits 1 and 2, recommend adjustments to the FY 2021 appropriated level of funds to align budgeted levels with year-end activities. Overall, these transactions ensure all funds remain in a positive financial picture.

Environmental Review

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

Attachments:

- **Attachment5.a:** Attachment I: Office of the City Auditor Finance Committee Report, Transmittal of MGO's Audit of the City of Palo Alto's Financial Statements
- **Attachment5.b:** Attachment II: Staff Report #13501, Approval of FY2021 ACFR & Budget Amendments
- **Attachment5.c:** Attachment III: Action Minutes, Finance Committee 11/30/2021



City of Palo Alto

Finance Committee Staff Report

(ID # 13784)

Meeting Date: 11/30/2021

Title: Discussion and Recommendation to the City Council Accept the Macias Gini & O'Connell's (MGO) Audit of the City of Palo Alto's Financial Statements as of June 30, 2021

From: City Manager

Lead Department: City Auditor

Recommendation

The City Auditor recommends that the Finance Committee review and forward to the City Council for approval the City of Palo Alto's audited financial statements for the fiscal year ended June 30, 2021 and the accompanying reports provided by Macias Gini & O'Connell LLP.

Discussion

The City Charter requires that the City Council, through the City Auditor, engage an independent public accounting firm to conduct the annual financial audit. The selected firm reports the results of the audit, in writing, to the City Council. Macias Gini & O'Connell LLP, a certified public accounting firm, conducted the audits of the City's financial statements for the fiscal year ended June 30, 2021.

The City Auditor is providing copies of the following financial statements and reports as prepared by MGO:

- Auditor's Report to the City Council (the "Management Letter") – Attachment A
- Cable TV Franchise, Independent Auditor's Report and Statements of Franchise Revenues and Expenses for the Years Ended December 31, 2020 and 2019 – Attachment B
- Palo Alto Public Improvement Corporation Annual Financial Report for the Year Ended June 30, 2021 – Attachment C
- Regional Water Quality Control Plant Independent Auditor's Report and Financial Statements for the Year Ended June 30, 2021 – Attachment D
- Independent Accountant's Report on Applying Agreed-Upon Procedures Related to the Article XIII-B Appropriations Limit for the Year Ended June 30, 2021 – Attachment E

Note that the final audit report, the Single Audit, will be completed and presented at a subsequent meeting.

The Annual Comprehensive Financial Report (ACFR), a separate item on this agenda, includes the following Independent Auditor's report:

- Independent Auditor's Reports on the Financial Statements (pgs. 1-3)

Macias Gini & O'Connell LLP issued a clean opinion on each audit report and reported no findings within the Agreed-Upon Procedures report.

The City Auditor would like to express appreciation to Macias Gini & O'Connell LLC, Ms. Kiely Nose, and her staff in the Administrative Services Department for their hard work and cooperation during the audit.

Attachments:

- Attachment A: Auditor's Report to the City Council
- Attachment B: Cable TV Franchise Auditor's Report
- Attachment C: Public Improvement Corporation Annual Financial Report
- Attachment D: Regional Water Quality Control Plant Auditor's Report
- Attachment E: GANN Limit Agreed Upon Procedures Report

CITY OF PALO ALTO, CALIFORNIA

Report to the City Council

For the Year Ended June 30, 2021



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Accountants

CITY OF PALO ALTO, CALIFORNIA
Report to the City Council
For the Year Ended June 30, 2021

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of 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. Professional standards require that we communicate to you the information related to our audit discussed on pages 1 through 5.

In planning and performing our audit of the basic financial statements of the City as of and for the year ended June 30, 2021, 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, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

- *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.
- *Probable*. The future event or events are likely to occur.

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

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose. This report is a matter of public record and this does not limit the distribution of this report.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 15, 2021

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CITY OF PALO ALTO, CALIFORNIA
 Report to the City Council
 For the Year Ended June 30, 2021

REQUIRED COMMUNICATIONS

We have audited the basic financial statements of the City as of and for the year ended June 30, 2021, and have issued our report thereon dated November 15, 2021. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated April 26, 2021, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the City's Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the basic financial statements. As described in Note 1(n) to the City's basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. The City evaluated all funds and activities in accordance with the statement and determine that the Cable Joint Powers Authority

CITY OF PALO ALTO, CALIFORNIA
 Report to the City Council (Continued)
 For the Year Ended June 30, 2021

and assessment district activities previously reported as agency funds should be reported as custodial funds. The City also implemented GASB Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*, and Statement No. 98, *The Annual Comprehensive Financial Report* and the implementation of these statements did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2021.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

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

The most sensitive accounting estimates affecting the City's basic financial statements were:

- *Fair value of investments.* The City's investments are generally carried at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City's investments are primarily classified as level 2 of the fair value hierarchy established by GASB Statement No. 72 and are valued using prices determined by the use of matrix pricing techniques maintained by the pricing vendors for these securities. The City's investment in the money market mutual funds, California Local Agency Investment Fund and California Asset Management Program are not subject to the fair value hierarchy.
- *Estimated allowance for losses on notes and loans receivable.* The allowance for losses on notes and loans receivable is based on the types of loans (e.g. forgivable, deferred, grant, or amortizing) and management's estimate regarding the likelihood of collectability based on loan provisions and collateral.
- *Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable assets.* The estimated useful lives of capital assets were determined based on the nature of the capital assets and management's estimate of the economic life of the assets.
- *Landfill post-closure liability.* The City has estimated, based on a study conducted by consultants, the post-closure costs of the Palo Alto landfill based on what it would cost to perform all currently mandated post-closure care. Actual post-closure care costs may be higher due to inflation variances, changes in technology, or changes in State or federal regulations.
- *Net pension and Other Postemployment Benefits (OPEB) liabilities, contributions, expenses, and other related balances.* These balances for pension and OPEB are based on actuarial valuations, which incorporate actuarial methods and assumptions adopted by the City, performed by the California Public Employees' Retirement System's and the City's independent actuaries, respectively.

CITY OF PALO ALTO, CALIFORNIA
 Report to the City Council (Continued)
 For the Year Ended June 30, 2021

- *Claims loss reserve.* The City is exposed to a variety of risks of loss due to general liability, workers' compensation and other claims and records an estimate of these losses based on actuarial studies performed by third party actuaries. These studies are prepared based on the City's prior claims history, which is used as a basis for extrapolating losses for known and incurred but not reported claims. Actual loss experience may vary from these estimates.

We evaluated the key factors and assumptions used to develop the accounting estimates described above and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

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

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Corrected and Uncorrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. The accompanying Summary of Uncorrected Financial Statements Misstatements summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

CITY OF PALO ALTO, CALIFORNIA
 Report to the City Council (Continued)
 For the Year Ended June 30, 2021

Representations Requested from Management

We have requested certain written representations from management, which are included in the letter dated November 15, 2021.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the City's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards:

Required Supplementary Information

We applied certain limited procedures to the management's discussion and analysis, the schedules of changes in net pension liability and related ratios, the schedules of pension contributions, the schedule of changes in net OPEB liability and related ratios, and the schedule of employer OPEB contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Supplementary Information and Other Sections

We were engaged to report on the combining and individual nonmajor fund financial statements and schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

CITY OF PALO ALTO, CALIFORNIA

Report to the City Council (Continued)

For the Year Ended June 30, 2021

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI or supplementary information. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Modification of the Auditor's Report

Our report includes an emphasis of matter paragraph to reference to Note 1 to the basic financial statements for the City's implementation of GASB Statement No. 84, Fiduciary Activities. Our opinion is not modified with respect to this matter.

CITY OF PALO ALTO, CALIFORNIA

Report to the City Council (Continued)

For the Year Ended June 30, 2021

SUMMARY OF UNCORRECTED FINANCIAL STATEMENTS MISSTATEMENTS

	<i>Debit</i>	<i>Credit</i>
<i>Current Year Adjustment #1</i>		
Beginning Net Position	\$ 11,933,391	
Expenses - Public Works		\$ 11,933,391
(Government-wide Governmental Activities - To adjust expenses for capital assets improperly capitalized in prior years and written off during the year ended June 30, 2021. The net position and capital assets balances were corrected as of June 30, 2021.)		

CABLE TV FRANCHISE

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

For the Years Ended December 31, 2020 and 2019



Certified
Public
Accountants

CABLE TV FRANCHISE

Independent Auditor's Report and Statements of Franchise Revenues and Expenses
For the Years Ended December 31, 2020 and 2019

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Independent Auditor's Report

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

We have audited the accompanying Statements of Franchise Revenues and Expenses of the Cable TV Franchise (Franchise) for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Franchise's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Amended and Restated Joint Exercise of Powers Agreement signed on June 9, 2009, between the City of Palo Alto, the City of East Palo Alto, the City of Menlo Park, the County of San Mateo, the County of Santa Clara, and the Town of Atherton as described in Note 1 to the financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the revenues and expenses of the Franchise for the years ended December 31, 2020 and 2019, in accordance with the financial reporting provisions of the Amended and Restated Joint Exercise of Powers Agreement signed on June 9, 2009, between the City of Palo Alto, the City of East Palo Alto, the City of Menlo Park, the County of San Mateo, the County of Santa Clara, and the Town of Atherton as described in Note 1 to the financial statements.

Basis of Accounting

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

Restriction on Use

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

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

Walnut Creek, California

November 15, 2021

CABLE TV FRANCHISE
 Statements of Franchise Revenues and Expenses
 For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues:		
Franchise fees	<u>\$ 1,614,163</u>	<u>\$ 1,679,591</u>
Expenses:		
Franchise administration	37,480	69,790
Consulting fees	<u>5,287</u>	<u>12,650</u>
Total expenses	<u>42,767</u>	<u>82,440</u>
Net revenues	<u><u>\$ 1,571,396</u></u>	<u><u>\$ 1,597,151</u></u>

	<u>2020</u>		<u>2019</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Allocated Net Revenues:				
City of Palo Alto	\$ 743,953	47.3%	\$ 762,686	47.8%
City of Menlo Park	420,485	26.7%	428,867	26.9%
City of East Palo Alto	162,894	10.4%	165,082	10.3%
Town of Atherton	133,139	8.5%	131,766	8.3%
County of Santa Clara	85,698	5.5%	86,425	5.4%
County of San Mateo	<u>25,227</u>	<u>1.6%</u>	<u>22,325</u>	<u>1.4%</u>
Total allocated net revenues	<u><u>\$ 1,571,396</u></u>	<u><u>100.0%</u></u>	<u><u>\$ 1,597,151</u></u>	<u><u>100.0%</u></u>

See accompanying notes to the financial statements.

CABLE TV FRANCHISE
Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019

NOTE 1 – JOINT OPERATING AGREEMENT AND BASIS OF ACCOUNTING

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

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

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

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

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

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

The accompanying financial statements are prepared in accordance with the financial reporting provisions of the Amended and Restated Joint Exercise of Powers Agreement between the Members, which is a basis of accounting other than accounting principles generally accepted in the United States of America, and are not intended to be a complete presentation of the Franchise's financial position or results of operations.

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

CABLE TV FRANCHISE
Notes to the Financial Statements (Continued)
For the Years Ended December 31, 2020 and 2019

NOTE 2 – PRIOR FRANCHISE SETTLEMENTS

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

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

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

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

In 2016, the City Auditor discovered that AT&T and Comcast did not consistently calculate the fees due in accordance with DIVCA and the municipal code of each of the cable joint powers members. As a result of the audit, the City received a settlement from AT&T in the amount of \$75,647 in 2016. Additionally, the City received a settlement from Comcast in the amount of \$25,000 in 2019.

The settlements and grant have been deposited and are being held by the City and earning interest. The City has since spent a part of the balance on various projects including installing and maintaining the institutional network equipment. As of December 31, 2020 and 2019, the remaining balances on deposit with the City, including balances from other funding sources, were \$1,067,151 and \$760,344, respectively. These balances include interest receivable of \$4,211 and \$4,316 at December 31, 2020 and 2019, respectively.

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

Annual Financial Report

For the Year Ended June 30, 2021



Certified
Public
Accountants

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

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Independent Auditor's Report

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters***Required Supplementary Information***

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

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

Walnut Creek, California
November 15, 2021

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

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

FINANCIAL HIGHLIGHTS

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

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

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

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

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

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

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

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

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

OVERVIEW OF THE CORPORATION'S BASIC FINANCIAL STATEMENTS

The annual financial report is comprised of two parts:

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

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

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

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

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

DEBT ADMINISTRATION

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

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

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

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

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

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

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

Assets

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

Liabilities

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

Net Position

Restricted for debt service	<u><u>\$ 4,660,882</u></u>
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See accompanying notes to financial statements.

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

Statement of Activities

For the Year Ended June 30, 2021

Expenses

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

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

Investment earnings	<u>56</u>
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Change in net position	4,622,804
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Net position, beginning of the year	<u>38,078</u>
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Net position, end of the year	<u><u>\$ 4,660,882</u></u>
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See accompanying notes to financial statements.

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

Balance Sheet
Debt Service Fund
June 30, 2021

Assets

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

Deferred Inflows of Resources

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

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

Reconciliation of fund balance to net position

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

See accompanying notes to financial statements.

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

Revenues:

Lease receipts from the City of Palo Alto:

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

Expenditures:

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

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

Other Financing Sources:

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

Net change in fund balance 4,622,804

Fund balance, beginning of the year 38,078

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

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

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

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

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

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

Change in interest payable (707,124)

Amortization of bond premium 246,491

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

Issuance of bonds (101,505,000)

Bonds premium (6,524,372)

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

Lease receipt for bond principal repayment (815,000)

Lease receipt for interest payment 707,124

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

Lease proceeds from new bond issuance 6,029,372

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

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

See accompanying notes to financial statements.

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

Notes to the Basic Financial Statements
For the Year Ended June 30, 2021

NOTE 1 – DESCRIPTION OF REPORTING ENTITY

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Corporation's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including investment earnings, are presented as general revenues.

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

(b) Major Fund

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of Accounting

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers revenues susceptible to accrual to be available if the revenues are collected within ninety days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured.

(d) Investment in Leases

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

(e) Net Position

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

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

(f) Deferred Inflows of Resources

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

(g) Fund Balances

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

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Effects of New Pronouncements

The Corporation is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following Governmental Accounting Standards Board (GASB) Statement:

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

(i) Estimates

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

NOTE 3 – CASH AND INVESTMENTS HELD BY TRUSTEE

(a) Interest Rate Risk

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

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

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2021, the Corporation's investments in money market mutual funds are rated AAAM by Standard & Poor's.

(b) Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The Corporation's investments in money market mutual funds are not subject to the fair value hierarchy.

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

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

(c) Investment Policy

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

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Government Securities	10 years (*)	N/A	No Limit	No Limit
U.S. Government Agency Securities	10 years (*)	N/A	No Limit (A)	No Limit
Certificates of Deposit	10 years (*)	N/A	20%	10% of the par value of portfolio
Bankers Acceptances	180 days	N/A	30%	\$5 million
Commercial Paper	270 days	A-1	15%	\$3 million (B)
Local Agency Investment Fund	N/A	N/A	No Limit	\$75 million per account
Short-Term Repurchase Agreements	1 year	N/A	No Limit	No Limit
City of Palo Alto Bonds	N/A	N/A	No Limit	No Limit
Money Market Deposit Accounts	N/A	N/A	No Limit	No Limit
Mutual Funds	N/A	N/A	20%	10%
Negotiable Certificates of Deposit	10 years (*)	N/A	10%	\$5 million
Medium-Term Corporate Notes	5 years	AA	10%	\$5 million
Bonds of State of California Municipal Agencies & Other U.S. States	10 years (*)	AA/AA2	30%	No Limit
Supranational	5 years	AA/AA2	20%	10% of the par value of portfolio

(A) Callable and multi-step securities are limited to no more than 25% of the par value of the portfolio, provided that:

1) the potential call dates are known at the time of purchase, 2) the interest rates at which they "step-up" are known at the time of purchase, and 3) the entire face value of the security is redeemed at the call date.

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

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

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

NOTE 4 – CERTIFICATES OF PARTICIPATION

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

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

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

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

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

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

NOTE 4 – CERTIFICATES OF PARTICIPATION (Continued)

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

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

Events of Default and Acceleration Clauses

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

**CITY OF PALO ALTO
REGIONAL WATER QUALITY
CONTROL PLANT**

Independent Auditor's Report
and Financial Statements

For the Year Ended June 30, 2021



Certified
Public
Accountants

CITY OF PALO ALTO
REGIONAL WATER QUALITY CONTROL PLANT
 Independent Auditor's Report and Financial Statements
 For the Year Ended June 30, 2021

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the City of Palo Alto Regional Water Quality Control Plant (Plant), an enterprise operation of the City of Palo Alto, California, for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Plant's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Basic Agreement between the City of Palo Alto, the City of Mountain View and the City of Los Altos for the Acquisition, Construction and Maintenance of a Joint Sewer System, dated October 10, 1968, as amended by addenda dated December 5, 1977, January 14, 1980, April 9, 1985, May 30, 1991, July 31, 1992, March 16, 1998, April 15, 2009, October 17, 2016, March 4, 2019, and May 17, 2021 (collectively, the "Basic Agreement"), as described in Note 2 to the financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the revenues, expenditures and quarterly billings of the Plant for the year ended June 30, 2021, in accordance with the financial reporting provisions of the Basic Agreement as described in Note 2 to the financial statements.

Basis of Accounting

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

Restriction on Use

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

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

CITY OF PALO ALTO
REGIONAL WATER QUALITY CONTROL PLANT
Statement of Net Expenditures
For the Year Ended June 30, 2021

	Total	City of Mountain View	City of Los Altos	City of Palo Alto
Direct Expenditures:				
Source control program	\$ 1,517,602	\$ 638,607	\$ 164,508	\$ 714,487
Public outreach	105,761	44,504	11,465	49,792
Permitting and enforcement	1,051,805	292,068	17,255	742,482
Operations and maintenance	15,087,850	6,348,967	1,635,523	7,103,360
System improvement CIP (Note 3)	4,787,692	2,014,661	518,986	2,254,045
Total Direct Expenditures	22,550,710	9,338,807	2,347,737	10,864,166
Indirect Administrative Expenditures (Note 4):				
Source control program	841,017	353,900	91,166	395,951
Public outreach	1,235	520	134	581
Permitting and enforcement	358,148	269,602	15,928	72,618
Operations and maintenance	3,877,572	1,631,682	420,329	1,825,561
Others	(121,851)	(61,546)	(17,041)	(43,264)
Total Indirect Administrative Expenditures	4,956,121	2,194,158	510,516	2,251,447
Debt Service Expenditures (Note 5):				
Refunding 1990 Series A Bonds	281,008	143,314	21,919	115,775
1999 Wastewater Treatment New Project	543,416	205,900	51,462	286,054
2009 State Water Resource Loan	555,726	210,565	52,627	292,534
2017 State Water Resource Loan	1,091,863	413,708	103,399	574,756
Total Debt Service Expenditures	2,472,013	973,487	229,407	1,269,119
Total Expenditures	29,978,844	12,506,452	3,087,660	14,384,732
Deduct Joint Systems Revenues (Note 6)	(543,965)	(194,160)	(138,617)	(211,188)
Net Expenditures	\$ 29,434,879	\$ 12,312,292	\$ 2,949,043	\$ 14,173,544

See accompanying notes to the financial statements.

**CITY OF PALO ALTO
REGIONAL WATER QUALITY CONTROL PLANT**

Statement of Quarterly Billings
For the Year Ended June 30, 2021

	<u>City of Mountain View</u>	<u>City of Los Altos</u>
Billings by Quarter, Beginning:		
July 1, 2020	\$ 2,764,163	\$ 661,058
October 1, 2020	3,006,584	720,366
January 1, 2021	2,764,163	661,058
April 1, 2021	<u>3,495,244</u>	<u>831,113</u>
Total billings	12,030,154	2,873,595
Net expenditures	<u>12,312,292</u>	<u>2,949,043</u>
Deficit of total billings under net expenditures	<u><u>\$ (282,138)</u></u>	<u><u>\$ (75,448)</u></u>

See accompanying notes to the financial statements.

CITY OF PALO ALTO
REGIONAL WATER QUALITY CONTROL PLANT
 Notes to the Financial Statements
 For the Year Ended June 30, 2021

NOTE 1 – THE REPORTING ENTITY

The Cities of Palo Alto, Mountain View and Los Altos (the Members) participate jointly in the cost of maintaining and operating the Regional Water Quality Control Plant and related system (the Plant). The Members share the original costs of acquisition and construction of the Plant in the same proportions as the allocation of capacity rights to them. The City of Palo Alto (the City) is the owner and administrator of the Plant. The Cities of Mountain View and Los Altos are entitled to use a portion of the capacity of the Plant, as set forth in the Basic Agreement between the City of Palo Alto, the City of Mountain View and the City of Los Altos for the Acquisition, Construction and Maintenance of a Joint Sewer System dated October 10, 1968, as amended by addenda dated December 5, 1977, January 14, 1980, April 9, 1985, May 30, 1991, July 31, 1992, March 16, 1998, April 15, 2009, October 17, 2016, March 4, 2019, and May 17, 2021 (collectively, the “Basic Agreement”). The Basic Agreement will terminate on December 31, 2060, unless a written notice of withdrawal is tendered ten years preceding the date of withdrawal.

On May 17, 2021, the Members approved the construction of a new outfall and related improvements to existing discharge infrastructure and the rehabilitation of the primary sedimentation tanks including electrical upgrades. Each Member agreed to pay its share of the project costs, in proportion to the capacity it owns in the Joint Sewer System. The Members also authorized the City to receive State Revolving Fund Loan from the State Water Resources Control Board (SWRCB) or pursue other project financing to fund the costs of the projects.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Plant is an enterprise that is operated by the City and its operations are accounted for as an enterprise fund in the City’s basic financial statements. The financial statements are prepared in accordance with the financial reporting provisions of the Basic Agreement, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements are intended to present the Plant’s net expenditures and quarterly billings by the Plant to the Cities of Mountain View and Los Altos pursuant to the agreement of the Members as described above and are not intended to be a complete presentation of the Plant’s financial position or results of operations. Additionally, the capital cost and the outstanding debt of the Plant are not presented in these statements but are presented in the basic financial statements of the City.

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

CITY OF PALO ALTO
REGIONAL WATER QUALITY CONTROL PLANT
Notes to the Financial Statements
For the Year Ended June 30, 2021

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The percentages used for the year ended June 30, 2021, to allocate expenditures and revenues were as follows:

	City of Mountain View	City of Los Altos	City of Palo Alto
Public outreach, source control program, operations and maintenance, system improvement CIP, and joint system revenues	42.08%	10.84%	47.08%
Permitting and enforcement	39.84%	2.35%	57.81%
Debt services expenditures:			
1999 Utility Refunding Bonds			
1999 Wastewater Treatment New Project	37.89%	9.47%	52.64%
Refunding 1990 Series A Bonds	51.00%	7.80%	41.20%
2009 State Water Resources Loan	37.89%	9.47%	52.64%
2017 State Water Resources Loan	37.89%	9.47%	52.64%

The City is allocated 47.08% of total usage of the treatment plant. The City does not fully utilize its percentage allocation. Therefore, the City has entered into separate contracts to allocate portions of its excess to other entities. Fiscal year 2021 allocations are as follows:

East Palo Alto Sanitary District	6.15%
Stanford University	3.77%
Town of Los Altos Hills	2.31%
Remaining City percentages	34.85%
Total	47.08%

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

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

NOTE 3 – SYSTEM IMPROVEMENT CAPITAL IMPROVEMENTS PROGRAM (CIP)

The basic agreement between the Members, dated October 10, 1968, provides that the administrator of the Plant is responsible for capital additions. These capital additions should be for the replacement of obsolete or worn-out units, or minor capital additions to improve the efficiency of the Plant's operations. Per the addendum to the agreement dated March 16, 1998, the Members agreed that capital additions should not exceed \$1.9 million in 1998-99 (base year). For future years, the base year amount will be adjusted annually based on increases to the Consumer Price Index-Urban Wage Earners and Clerical Workers for the San Francisco-Oakland-San Jose area. For fiscal year 2021, the adjusted capital additions limit is \$3,442,929. Actual System Improvement CIP expenditures amounted to \$2,383,745 for fiscal year 2021. As of June 30, 2021, the commitments for minor capital additions, including unspent capital additions, is \$8,114,803 which have been carried forward to fiscal year 2022.

CITY OF PALO ALTO
REGIONAL WATER QUALITY CONTROL PLANT
 Notes to the Financial Statements
 For the Year Ended June 30, 2021

NOTE 4 – INDIRECT ADMINISTRATIVE EXPENDITURES

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

NOTE 5 – DEBT SERVICE EXPENDITURES

Debt service expenditures include principal repayments, interest expense and amortization of bond discount reduced by any interest income earned from investments with the fiscal agent, related to the 1999 Series A Bonds (split for the portions used for the "New Project" and refunding of the 1990 Series A Bonds) and the 2009 and 2017 State Water Resources loans.

In June 1999, the City, City of Mountain View, City of Los Altos, Town of Los Altos Hills, East Palo Alto Sanitary District, and Stanford University agreed to issue bonds (1999 Series A Bonds) to finance the rehabilitation of the Wastewater Treatment System's two sludge incinerators and to refund the 1990 Series A Bonds.

In October 2009, the City and the SWRCB executed an agreement for the 2009 State Water Resources Loan to finance the Ultraviolet Disinfection Project.

In June 2017, the City and the SWRCB executed an agreement for State Water Resources Loan for an award up to \$30 million, 30 years at 1.8% to finance the project replacing the sewage sludge "bio-solids" incinerators at the Plant. On September 13, 2017, the City and the SWRCB amended the original agreement of the 2017 SRF loan to lower the total amount to \$29.7 million and the due date of the last debt service payment be May 31, 2049. Under the terms of the amended agreement, a portion of the loan amount, \$4.0 million, is federally funded and the obligation balance was adjusted.

The new facility will dewater the bio-solids and allow it to be loaded onto trucks and taken offsite for further treatment until further treatment units can be built onsite. The Plant provides treatment and disposal for wastewater for the City, City of Mountain View, City of Los Altos, Town of Los Altos Hills, East Palo Alto Sanitary District, and Stanford University. Though the City is the recipient of the loan, the City's agreement with the partner agencies obliges them to pay their proportionate share of the principal and interest of this loan. The City's share of the loan payment is 38.2% with the partner agencies paying 61.8%.

CITY OF PALO ALTO
REGIONAL WATER QUALITY CONTROL PLANT
Notes to the Financial Statements
For the Year Ended June 30, 2021

NOTE 5 – DEBT SERVICE EXPENDITURES (Continued)

The principal amount of the debt outstanding as of June 30, 2021 are allocated as follows:

	<u>1999 Utility Revenue Refunding Bonds</u>				
	1999 Wastewater Treatment New Project	Refunding of 1990 Series A Bonds	2009 State Water Resources Loan	2017 State Water Resources Loan	Total
City of Palo Alto	\$ 549,504	\$ 190,115	\$ 1,846,454	\$ 9,101,046	\$ 11,687,119
City of Mountain View	545,616	387,835	1,833,389	9,036,652	11,803,492
City of Los Altos	136,368	59,316	458,226	2,258,567	2,912,477
East Palo Alto Sanitary District	110,016	90,495	369,678	1,822,117	2,392,306
Stanford University	75,744	31,179	254,516	1,254,494	1,615,933
Town of Los Altos Hills	22,752	1,521	76,452	376,825	477,550
Total	<u>\$ 1,440,000</u>	<u>\$ 760,461</u>	<u>\$ 4,838,715</u>	<u>\$ 23,849,702</u>	<u>\$ 30,888,878</u>

NOTE 6 – JOINT SYSTEM REVENUES

The Plant's joint system revenues for the year ended June 30, 2021 total \$543,965 which consisted of the following:

Septic hauling services	\$ 293,871
Receipt from Santa Clara Valley Water District	203,400
Other miscellaneous revenues	3,563
Salt water marsh services	7,500
Interdepartment services	8,661
Utility service to other utility funds	37,397
Bad debt expense	(10,427)
	<u>\$ 543,965</u>

NOTE 7 – RELATED PARTY TRANSACTIONS

During fiscal year 2021, the Plant paid the City \$1,936,103 for utility costs. Such costs are included in the Statement of Net Expenditures as source control program, permitting and enforcement, and operations and maintenance expenditures. Vehicle replacement charges of \$22,293 were paid to the City's Vehicle Replacement and Maintenance Internal Services Fund, which is included in the Statement of Net Expenditures as operations and maintenance expenditures.

NOTE 8 – 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 Plant's 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, CALIFORNIA

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

For the Year Ended June 30, 2021



Certified
Public
Accountants

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

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

We have performed the procedures enumerated below to the accompanying Appropriations Limit Worksheet of the City of Palo Alto, California (City) for the year ended June 30, 2021. The City's management is responsible for the appropriations limit calculation for the year ended June 30, 2021.

The City has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of assisting the City in evaluating the appropriations limit calculation in accordance with the requirements of Section 1.5 of Article XIIB of the California Constitution. The procedures are recommended by the California Committee on Municipal Accounting (as presented in the CCMA White Paper titled *Agreed-upon Procedures Applied to the Appropriations Limit Prescribed by Article XIII-B of the California Constitution*). This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

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

Finding: No exceptions were noted as a result of our procedures.

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

Finding: No exceptions were noted as a result of our procedures.

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

Finding: No exceptions were noted as a result of our procedures.

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

Finding: No exceptions were noted as a result of our procedures.

We were engaged by the City to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the appropriations limit calculation for the year ended June 30, 2021. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriations limit for the base year, as defined by Article XIII-B of the California Constitution.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of City Council and the City's management, and is not intended to be and should not be used by anyone other than these specified parties.

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

CITY OF PALO ALTO, CALIFORNIAAppropriations Limit Worksheet
For the Year Ended June 30, 2021

2019-2020 appropriation limit, as adopted	\$	172,760,000
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Adjustment factors:

Population ⁽¹⁾		1.0037
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Inflation ⁽²⁾		1.0373
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Total adjustment factors (rounded) ⁽³⁾		1.0411
---	--	--------

Total adjustments (rounded)		7,100,000
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2020-2021 appropriation limit, as adopted	\$	179,860,000
---	----	-------------

- ⁽¹⁾ The population factor may be based on the change in population of 1) the City or 2) the County of Santa Clara, as provided by the State of California's Department of Finance. The population factor adopted by the City for the current year appropriation limit represents the change in population of the County of Santa Clara.
- ⁽²⁾ The inflation factor may be based on 1) the change in per capita personal income for the State of California, as provided by the State of California's Department of Finance; or 2) the change in the assessed valuation due to new non-residential construction within the City. The inflation factor adopted by the City for the current year appropriation limit represents the change in per capita personal income.
- ⁽³⁾ The total adjustment factor is calculated by multiplying the population factor by the inflation factor.



City of Palo Alto

Finance Committee Staff Report

(ID # 13501)

Meeting Date: 11/30/2021

Title: Recommendation to the City Council to Approve the Fiscal Year (FY) 2021 Annual Comprehensive Financial Report (ACFR) and FY 2021 Budget Amendments in Various Funds

From: City Manager

Lead Department: Administrative Services

Recommendation

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

1. The City's FY 2021 Annual Comprehensive Financial Report (ACFR) (**Attachment C**); and
2. Amend the Fiscal Year (FY) 2021 Budget Appropriation Ordinance for various funds as identified in the attached Recommended Amendments to the City Manager's FY 2021 Budget (Operating Budget: **Attachment B – Exhibit 1**; Capital Budget: **Attachment B – Exhibit 2**).

Financial Highlights for FY 2021

Government-wide

At the close of FY 2021, the City's overall Net Position remains positive despite of the fiscal challenges due to the COVID-19 pandemic. The Statement of Net Position (p. 31 of the attached ACFR) reports Governmental Activities (the City's basic services which are generally funded by taxes, and by specific program revenues such as fees and grants) Net Position at \$423.1 million, a \$17.4 million decrease from the prior year, and Business-Type Activities (the City's enterprise activities which are funded in whole or in part by fees charged to external parties) Net Position at \$807.2 million, a \$22.2 million increase. Various factors contributed to these changes, including accounting adjustments required by the Governmental Accounting Standards Board (GASB).

General Fund

The General Fund ended with a \$49.1 million Budget Stabilization Reserve (BSR), a \$13.2 million, or 36.8 percent, increase when compared to FY 2020. The \$13.2 million BSR increase is driven mainly by a \$13.8 million surplus and changes in various General Fund Reserves (see Attachment A, Change in Fund Balance GAAP Basis on p. 37 of the ACFR). The revenues such as sales tax, property tax and documentary tax were higher than expected while expense savings were realized across many of the departments (detailed in Attachment A). Although some of

the major taxes are higher than projected in the Adjusted Budget, the pandemic continues to impact the City's revenue with sales tax, transient occupancy tax, utility user tax, rental income, and charges for services, remaining lower compared to pre-pandemic revenues.

The General Fund ended FY 2021 ended with a \$49.1 million BSR, however once adjusted for Council approved uses, the City's \$43.3 million BSR reflects a surplus of \$4.6 million compared to the Council 18.5 percent target (\$38.7 million). Council approved use of the BSR for the balancing of the FY 2022 Adopted Budget and for the Utilities Transfer Litigation Reserve ([CMR 13439](#)).

Capital Project Funds

Capital Project Fund ended with a \$165.7 million, which is higher compared to \$83.6 million in 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.

Enterprise Funds

The City's Enterprise Funds, except for the Electric fund, resulted to a positive change in net positions. The Electric Fund ended with a net loss due to the lower demand in commercial and industrial sector as a result of a continued limited operations and shelter-in-place restrictions, due to higher energy purchase cost as a result of low hydroelectric supply, and an increase in operations and maintenance expenses.

Internal Service Funds

Internal Service Funds ended the fiscal year with \$87.6 million fund balance. All funds showed positive balances except the Printing and Mailing which reported a \$0.3 million negative balance due to the pension liability per GASB 68 and Other Post-Employment Benefits (OPEB) liability per GASB 75. Once adjusted for these noncash transactions, the Printing and Mailing fund remains with a positive fund balance.

Background

The City's fiscal year ends on June 30, at which time its financial records are closed for the year and financial reports are prepared. The reports, along with the City's financial data, are audited by Macias Gini & O'Connell LLP (MGO), Certified Public Accountants, a firm hired by the City Auditor. MGO issues an audit opinion on the financial position of the City's activities and, together with the City's financial statements and other information; this comprises the City's Annual Comprehensive Financial Report (ACFR) that can be found in **Attachment C**.

Attachment B outlines recommended amendments to the FY 2021 Budget. These recommended actions close the fiscal year by reallocating and realigning budget to

reappropriate funds or adjust transfers between operating and capital funds. The General Fund Summary found in **Attachment A**, provides detailed information of the fund's activity this year.

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

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

Throughout this report, pronouncements released by GASB are referred to by issuance number. For example, GASB Pronouncement No. 68 is referenced in this report as GASB 68. A full list of pronouncements can be found on [GASB's website](#).

Financial Results

Government-wide Statements

Statement of Net Position

The Statement of Net Position presents information on all of the City's assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources, with the reported net position.

The City's net position was \$1.230 billion on June 30, 2021 compared to the balance of \$1.226 billion on June 30, 2020. Of the total increase of \$4.8 million, or 0.4 percent, \$22.2 million is from business-type activities partially offset by a decrease of \$17.4 million from governmental activities.

The largest portion of the City's net position (\$1.123 billion or 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 these assets. The restricted portion of the City's net position (\$83.7 million or 6.8 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$24.1 million, across all funds, 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.

The unrestricted net position for the governmental activities portion is negative due to the recognition of the net pension liabilities as required by GASB Statement No. 68 and net OPEB

liabilities a required by GASB Statement No. 75. The \$137.7 million deficit for governmental activities includes the \$303.8 million impact of net pension liabilities and its related deferred outflows of resources (GASB 68) and \$89.9 million impact of net OPEB liabilities and its related deferred outflows of resources and deferred inflows of resources (GASB 75). Governmental activities' unrestricted net position, excluding these impacts, is \$256.0 million.

STATEMENT OF NET POSITION

As of June 30, 2021

(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	693.2	693.2	1,295.2	1,289.5
Deferred outflows	60.8	55.8	21.1	21.1	81.9	76.9
Total assets and deferred outflows	1,182.8	1,055.4	1,047.6	1,044.5	2,230.4	2,099.9
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
Deferred inflows	16.3	24.5	6.4	9.6	22.7	34.1
Total Liabilities	759.6	614.8	258.8	259.5	1,018.4	874.3
Net Position						
Net investment in capital assets	480.6	497.4	642.0	621.3	1,122.6	1,118.7
Restricted	80.3	44.6	3.4	4.1	83.7	48.7
Unrestricted	(137.7)	(101.4)	161.8	159.6	24.1	58.2
Total Net Position	\$ 423.2	\$ 440.6	\$ 807.2	\$ 785.0	\$ 1,230.4	\$ 1,225.6

Statement of Activities

The major sources of the City's revenues are Program Revenues and General Revenues. Program Revenues consist of charges for services (both governmental and business type activities) as well as operating and capital grants and contributions. General Revenues include property tax, sales tax, utility user tax, transient occupancy tax, documentary transfer tax, other taxes and miscellaneous revenue.

Revenues for the City in FY 2021 were \$553.7 million, a decrease of \$31.0 million or 5.3 percent compared to FY 2020, due to a \$15.2 million decrease in Governmental Activities and \$15.8 million decrease from Business Activities. Governmental Activities decreased \$15.2 million mainly due to decreases in sales tax, utility user tax, and transient occupancy tax. Business Activities revenue decreased \$15.4 million mainly due to decreases in Electric and Refuse Funds revenue as a result of continued limited businesses operations and closures. Another factor

driving the decrease of the revenue is due to the decrease of investment earnings which resulted from negative fair market value adjustments.

Expenses for the City in FY 2021 were \$548.9 million, a decrease of \$1.6 million or 0.3 percent compared to FY 2020, due to a \$8.3 million decrease from Governmental Activities that is partially offset by a \$6.7 increase from Business-type expenses.

The decrease in Governmental Activities expenses is mainly due to the decrease in salaries and benefits and contract services. All department expenses decreased except for Administrative Services and Public Works.

Administrative Services expenses increased \$7.1 million, primarily due to \$12.6 million in expenses incurred in a class action lawsuit (*Green v. City of Palo Alto*). In the *Green* case, which was filed against the City in October 2016, Plaintiffs allege that the City's gas and electric rates include charges that are unlawful under Proposition 26. On June 24, 2021, a trial court entered judgment upholding the City's electric rates but finding that gas rates include an unlawful component and ordering 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 outcome of the claim is uncertain, the City has recorded a non-current claims liability equal to the trial court judgement on the governmental activities financial statement, since this liability is not due and payable on June 30, 2021.

The Public Works which increased \$7.1 million was due to various repairs and maintenance of capital assets such as streets, sidewalks, facilities, and parks all of which are non-capitalizable. This fiscal year staff reviewed construction in progress balances on a timely manner and determined that certain expenses, specifically repair and maintenance costs, should not have been capitalized per Generally Accepted Accounting Principles (GAAP). The expense to correct these balances was recorded as part of Public Works functional expenses. This process was put in place in FY 2021.

The increase of Business Type Activities is driven by several cost categories and resulted in higher costs compared to prior year, including energy purchase cost, operations and maintenance in Electric Fund, and commodity purchases in Gas Fund. These increases were partially offset by the lower payment to GreenWaste of Palo Alto for reimbursement of new waste collection vehicles, decrease in facility rent and adjustment as a result of a five-year post closure maintenance plan update and cost estimate that was approved in the current fiscal year in Refuse Fund.

Statement of Activities for the Year Ended June 30
(in millions)

	2021	2020	Increase / (Decrease)
Revenues			
Program Revenues	\$ 423.2	\$ 428.6	\$ (5.4)
General Revenues	130.5	156.1	(25.6)
Total Revenues	<u>\$ 553.7</u>	<u>\$ 584.7</u>	<u>\$ (31.0)</u>
Expenses			
Governmental Activities			
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	-
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	34.1	(3.8)
Library	11.1	13.0	(1.9)
Interest and Other Expense	6.3	4.7	1.6
Business Type Activities			
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)
Total Expenses	<u>\$ 548.9</u>	<u>\$ 550.5</u>	<u>\$ (1.6)</u>
Change in Net Position	<u>\$ 4.8</u>	<u>\$ 34.2</u>	<u>\$ (29.4)</u>

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2021, amounts to \$1.311 billion (net of accumulated depreciation), which is a \$21.0 million or 1.6 percent increase, compared to FY 2020. The increase was primarily due to various projects such as the Highway 101 Pedestrian / Bicycle overpass, Public Safety Building and California Avenue Parking Garage, and Transmission, Distribution and Treatment systems for the various utility services.

CAPITAL ASSETS AT JUNE 30 (in millions)

	2021	2020	Increase/ (Decrease)
Governmental activities			
Land and improvements	\$ 82.1	\$ 82.2	(0.1)
Street trees	14.8	14.8	-
Construction in progress	143.4	142.1	1.3
Building and improvements	272.1	251.1	21.0
Intangible assets	3.8	3.8	-
Equipment	80.3	79.2	1.1
Roadway network	335.3	335.2	0.1
Recreation and open space network	35.2	35.2	-
Less accumulated depreciation	(365.0)	(347.3)	17.7
Business-Type Activities			
Land	5.0	5.0	-
Construction in progress	129.0	121.1	7.9
Buildings and improvements	74.0	74.0	-
Capital Leases	0.5	0.5	-
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
Total Capital Assets	<u>\$ 1,310.5</u>	<u>\$ 1,289.5</u>	<u>\$ 21.0</u>

Liabilities

As of June 30, 2021, the City's liabilities totaled \$995.9 million, which is \$155.6 million, or 18.5 percent increase, compared to FY 2020. The increase was due to a total of \$108.0 million (\$101.5 million and \$6.5 million) for the issuance of Certificates of Participation (COPs) to finance the construction of the public safety building, a \$6.9 million receipt of City's first two distributions of American Rescue Plan Act of 2021 (ARPA) allocations, and the \$12.6 million potential liability for the *Green v. City of Palo Alto* class action lawsuit. The ARPA allocation was which was recorded as unearned revenue as of June 30, 2021, as the funds are not earned nor spent this fiscal year per GAAP. Higher net pension liability contributed also to the increase of City's total liabilities.

Fund Financial Statements

General Fund

General Fund Reserves

At the end of the current fiscal year, fund balance of the General Fund was \$75.6 million. This fund balance is comprised of several reserves: the BSR (City's general reserve), reappropriations, notes and loans, inventory, prepaid items, and other general government special purpose reserves (this includes reserves for encumbrances and donations). The \$1.6 million reserve for excess Educational Revenue Augmentation Fund (ERAF) in FY 2020 was returned to the City's BSR in FY2021 due to the favorable resolution of the calculation for excess ERAF¹. As described in the BSR reserve policy approved by the Council, the reserve is to remain between 15 and 20 percent of the General Fund operating budget, with a target goal of 18.5 percent. Any reserve balance in excess of the 18.5 percent target may be transferred to the Infrastructure Reserve (IR) in the Capital Projects Fund at the discretion of the City Manager.

The FY 2022 Adopted Operating Budget projected a \$35.8 million BSR balance as of June 30, 2021, compared to the actual balance of \$49.1 million (this is a component of the General Fund, fund balance noted above). This is \$13.3 million above estimates mainly due to higher sales tax, property tax and documentary transfer tax receipts. The \$49.1 million is \$10.4 million above the Council's 18.5 percent target of the FY 2022 Adopted expenses of \$38.7 million.

The chart below outlines the approved uses of the BSR in FY 2022. These adjustments, totalling \$5.8 million, results in a BSR balance of \$43.3 million; approximately 20.7 percent of the FY 2022 Adopted expenses of \$209.2 million. This level is approximately \$4.6 million above the target level of 18.5 percent. Staff recommends leaving the BSR above the targeted level in order to anticipate potential service level augmentation recommendations in FY 2022.

¹ 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. In a claim by the State, calculations for excess ERAF incorrectly shifted too much property tax from schools to local agencies. This has since been resolved in the favor of the local agencies

Year-End Budget Stabilization Reserve (BSR) Summary (in millions)	
General Fund BSR Balance, June 30, 2021	\$ 49,089
Uses of the FY 2021 Surplus	
FY 2022 Approved Adjustments to the BSR Balance	
FY 2022 Adopted Budget	(\$ 1,808)
Utilities Transfer Litigation (Equity Transfer) (CMR 13439)	(\$ 4,000)
Subtotal: Approved Adjustments to the BSR Balance	(\$ 5,808)
Current Projected FY 2021 BSR Level, (June 30, 2022)	<u>\$ 43,281</u>

General Fund Revenues

General Fund revenues for FY 2021 were \$166.8 million, which is \$13.6 million or 7.5 percent lower than the prior year. Year over year changes in each of the major tax revenue categories are summarized in the following table.

Category	FY 2021	FY 2020	% Change Increase (Decrease)
Property tax	\$ 56,572	\$ 51,089	10.8%
Sales tax	29,127	30,563	(4.9%)
Utility user tax	14,642	16,140	(9.3%)
Transient occupancy tax	5,179	18,553	(72.0%)
Documentary transfer tax	10,627	6,903	53.6%

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 ERAF distribution. The FY 2021 secured and unsecured property tax assessed values growth rates are 7.6 percent and 12.7 percent, respectively, an average of 7.8 percent. These higher assessed values reflect continued strength in commercial and residential real estate markets. Historically, during economic downturn such as 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 has grown from \$0.4 million in FY 2014 to \$5.6 million in FY 2021. Increased in FY2021 was due to the favorable settlement between State of California and County of the calculation for excess ERAF¹. 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 on-line 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. 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 revenues are \$1.5 million, or 9.3 percent, which is 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 most significantly impacted by the pandemic and reached \$5.2 million, a \$13.4 million, or 72.0 percent decrease than the prior year. Six hotels, representing 16.3 percent of available rooms remained closed while two other smaller hotels reopened during the fiscal year. In addition, two Marriott hotels (approximately 293 total rooms) opened hotels 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. The entire 15.5 percent TOT rate from new hotels, plus 3.5 percent from all other hotels, has been allocated to the Infrastructure Plan pursuant to City Council direction. The following is a comparative breakdown of the allocation of transient occupancy tax receipts:

	FY 2021	FY 2020	% Change Increase (Decrease)
General Fund	\$ 2,796	\$ 11,567	(75.8%)
Infrastructure Plan			
New hotels – 12%	1,214	2,793	(56.5%)
All hotels – 3.5%	1,169	4,193	(72.1%)
<i>Subtotal Infrastructure</i>	2,383	6,986	(65.9%)
Total TOT Receipts	<u>\$ 5,179</u>	<u>\$ 18,553</u>	(72.0%)

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

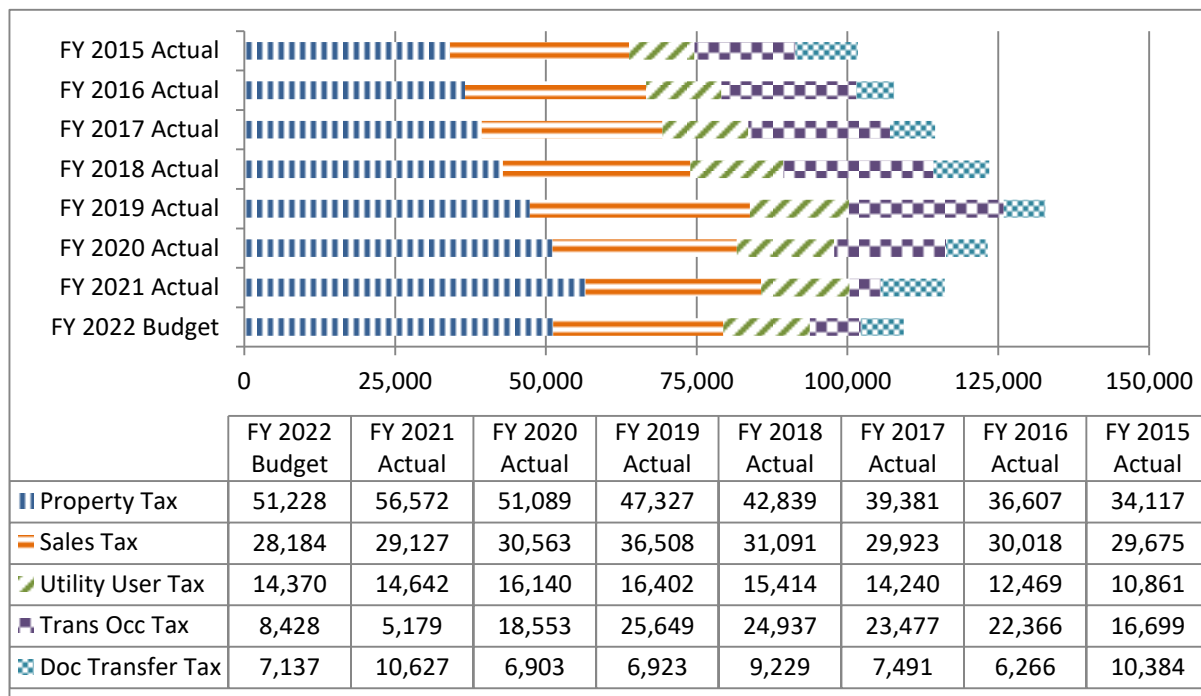
and classes and fewer reviews and inspections due to limited operations caused by COVID-19 restrictions.

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 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.

All other revenues decreased \$4.5 million, or 47.4 percent, when compared to prior year due to decrease of investment earnings which resulted from adjusting the investments to market value at year-end, as required by GASB 31.

The following is a chart which depicts the relative contribution of each tax category over the past seven years (2015 through 2021), as well as the current budgeted year (2022).

General Fund Tax Revenues
Actual Fiscal Years 2015 – 2021
Budget Fiscal Year 2022
(\$ in thousands)



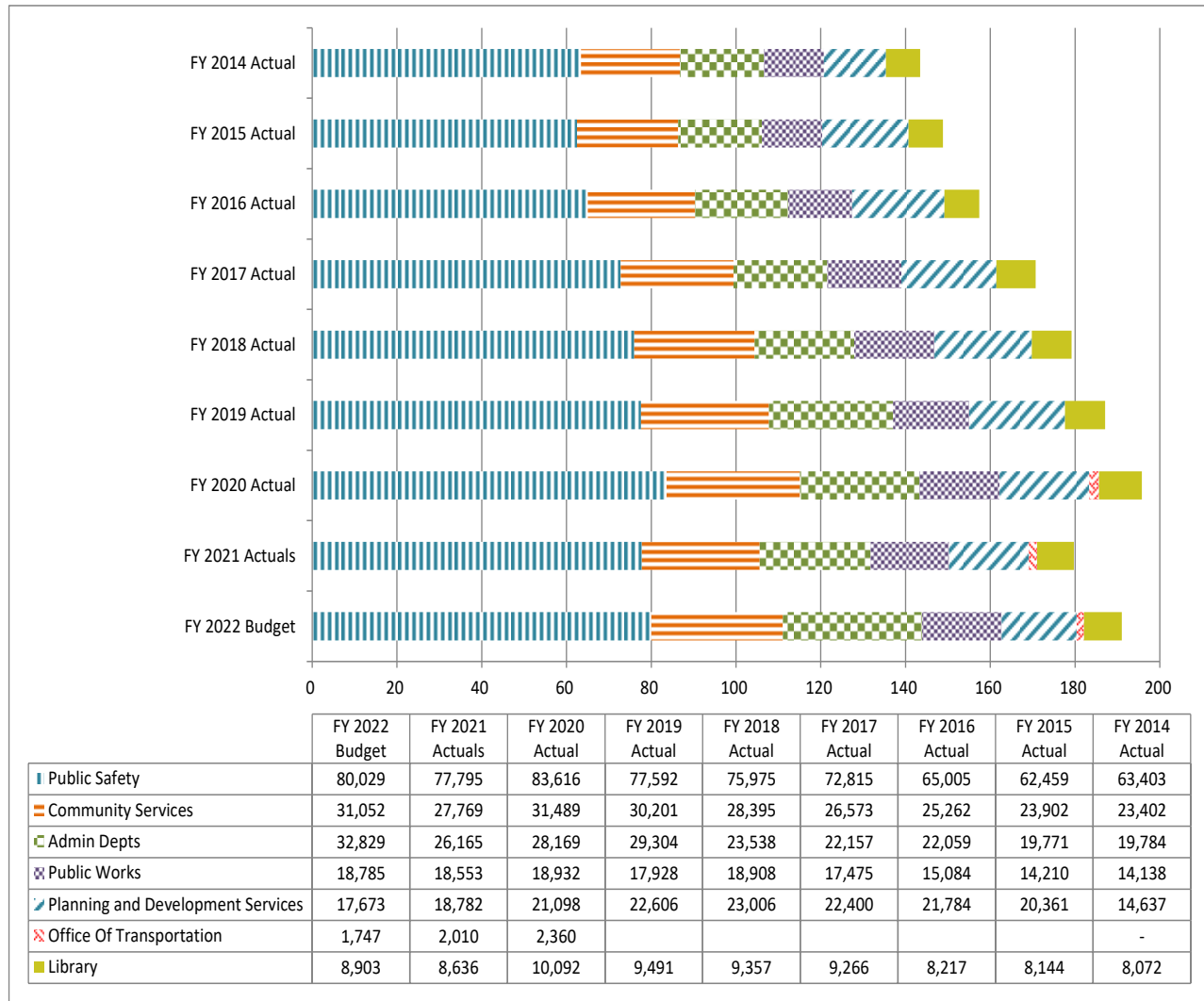
General Fund Expenditures

General Fund expenditures for FY 2021, including encumbrances and reappropriations, totaled \$183.8 million; a decrease of 10.0 percent from the prior year, mainly due to cost savings implemented by the City including reductions in staff and services. In response to financial uncertainties caused by the COVID-19 pandemic, the City adopted various strategies to lower expenses such as implementing furlough to Management and Professional Group, leaving some vacant positions unfilled, eliminating 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.

The Adopted Budget of \$179.1 million was increased to the Final Adjusted Budget amount of \$187.5 million, primarily due to the expenditure of prior year encumbered and reappropriated balances; increases for several departments throughout the year also occurred based on City Council direction per recommendations contained in City Manager Reports.

The following is a chart which compares actual departmental costs, including encumbrances and reappropriations, excluding Cubberley lease over the past seven years and budgeted costs for FY 2022.

General Fund Departments
Actual Expenditures Fiscal Years 2015– 2021 (including reappropriations and encumbrances)
Budgeted Expenditures Fiscal Year 2022
(\$ in thousands)



The Development Services Department was combined with the Planning and Community Environment in FY 2020 and renamed to the Planning and Development Services Department.

The Office of Transportation Department, which previously was a division of the Planning and Community Environment Department was established in FY 2020.

Capital Projects Fund

The Capital Projects Fund ended the year with a fund balance of \$165.7 million, which are comprised of the following:

Fund Balance Component	Amount (\$ in millions)
Restricted for Library projects	\$ 598
Reserved for Roth Building rehabilitation	5,179
Reserved for Cubberley expenditures	4,726
Restricted for Public Safety Building	90,922
Assigned for all other Capital projects	64,279
Total Capital Projects Fund Balance	\$ 165,704

Restricted for Library projects \$0.6 million is the portion of fund balance dedicated to the remaining Library expenditures which, if considered bond expenses will be paid for with cash from bond proceeds. Non-bondable expenditures such as salaries and benefits are funded from the Infrastructure Reserve, as established at the time of the bond issuance. The library project is already completed but the roof defects need to be fixed using this reserve.

Restricted for Public Safety Building \$90.9 million represents the remaining bond funding dedicated to the construction of the public safety building.

Assigned for all other Capital projects \$64.3 million represents the amount of unspent funds associated with Adopted Capital projects and other noted items. Outside funding sources such as grants, donations and future debt issues are not factored into this component of the fund balance until they are received.

Enterprise Funds

The City's Enterprise Funds reported a total Net Position of \$807.2 million, a \$22.2 million increase from the prior year. All Enterprise funds contributed to this increase except Electric Fund.

The table below summarizes the overall change in Net Position for each Enterprise Fund. Compared to FY 2020, the Change in Net Position for Enterprise funds decreased \$17.4 million driven primarily by the Electric Fund – details of these funds are summarized following this table.

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

Fund Name	2021	2020	Increase/ (Decrease)
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
Total Change in Net Position	\$ 22.2	\$ 39.6	\$ (17.4)

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 the decline in other revenues specifically interest earnings due to lower market value at year-end.

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 lower market value at year-end, an increase in purchase cost of electricity due to low hydroelectric supply, and an increase in operations and maintenance.

The change in net position for Wastewater Collection Fund decreased \$1.4 million due to lower non-residential sewer charge, 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 decrease in operations and maintenance.

The change in net position of Refuse Fund increased \$5.0 million due to 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 adjustment to landfill post closure maintenance. The decrease of operating expenses was partially offset by lower revenues including investment earnings.

The table below details the Change in Unrestricted Net Position in the Enterprise Funds. Enterprise Fund Rate Stabilization, Operations and other reserve balances are shown in detail in the ACFR (ACFR p. 88 Note 10). Overall, except for the Wastewater Treatment Fund and the Airport Fund, each Enterprise Funds maintained a positive unrestricted net position balance as

of June 30, 2021. Adjustments for the Pension Reserve (as required by GASB 68) and OPEB Reserve (as required by GASB 75) total \$142.0 million for all Enterprise Funds and reduce each fund's unrestricted net position.

The Wastewater Treatment Fund reflects a \$10.8 million Unrestricted Reserve deficit and is driven by \$28.2 million in Pension Reserves and OPEB Reserves adjustments.

The Airport Fund reports a \$3.7 million deficit net position which is attributed to the \$1.2 million Pension Reserve and OPEB Reserve adjustments. Second, the fund deficit in the Airport Fund is also a result of cumulative fund deficits over the life of the fund as fiscal operations at the airport stabilize and capital projects near completion. The \$6.7 million change in net position of Airport Fund in current year is \$1.1 million from operations and \$5.6 million grants received in current year.

Enterprise Funds
Change in Unrestricted (Deficit) Net Position
(In Millions)

Fund Name	2021	2020	Increase/ (Decrease)
Water	\$ 33.0	\$ 28.2	\$ 4.8
Electric	74.5	83.6	(9.1)
Fiber Optics	34.5	33.0	1.5
Gas	11.6	8.5	3.1
Wastewater Collection	0.8	1.2	(0.4)
Wastewater Treatment	(10.8)	(10.5)	(0.3)
Refuse	14.3	12.1	2.2
Storm Drainage	4.0	4.0	-
Airport	(3.7)	(4.4)	0.7
Total Change in Reserves (Unrestricted)	\$ 158.2	\$ 155.7	\$ 2.5

Resource Impact

Recommended actions in the report will align the FY 2021 appropriations with final financial activities as outlined in **Attachment B**. Overall, the City ended the FY 2021 in a positive net position and in certain areas where net reserves were higher than estimated in the development of the FY 2022 Adopted Budget, those additional funds will be included as part of the FY 2022 budget balancing and rate setting activities.

Stakeholder Engagement

The review and writing of this report was coordinated among various divisions within the Administrative Services Department, along with Departments who assisted in staff's analysis. The actions recommended in this report were discussed and communicated to the impacted

departments.

Environmental Review

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

Attachments:

- Attachment A Budget and Actuals
- Attachment B: Recommended FY 2021 Year-End Budget Actions
- Attachment C: FY 2021 Annual Comprehensive Financial Report (ACFR)

Attachment A
Statement of Revenues, Expenditures and Change in Fund Balance - Budget and Actual

	GENERAL FUND SUMMARY (\$000s)						
	FY 2021 Adopted Budget	FY 2021 Adjusted Budget	FY 2021 Rev/Exp Actuals	FY 2021 Allocated Charges	FY 2021 Encum / Reappropriation	FY 2021 Actual Rev/Exp	FY 2021 Actual to Adj Budget Variance
Revenues							
Sales Tax	20,500	25,030	29,127			29,127	4,097
Property Tax	52,000	53,173	56,572			56,572	3,399
Transient Occupancy Tax	14,900	5,123	5,179			5,179	56
Documentary Transfer Tax	4,700	6,875	10,627			10,627	3,752
Utility User Tax	15,100	14,080	14,642			14,642	562
Other Taxes, Fines and penalties	1,925	392	683			683	290
Charges for Services	25,984	24,414	25,105			25,105	692
Permits and Licenses	7,770	8,366	7,261		447	7,708	(658)
Investment Earnings	1,145	1,145	1,063			1,063	(83)
Rental Income	15,949	15,331	13,293			13,293	(2,038)
From Other Agencies	2,448	4,580	3,828		394	4,222	(358)
Charges to Other Funds	11,992	11,992		11,661		11,661	(331)
Other Revenues	674	666	732	-		732	66
Total Revenues	175,088	171,168	168,112	11,661	841	180,615	9,447
Add: Operating Transfers In	21,359	21,151	21,151			21,151	-
Prior Year Encum / Reappropriation		7,570	7,570			7,570	-
Total Source of Funds	196,447	199,889	196,833	11,661	841	209,336	9,447
Expenditures							
City Attorney	3,485	3,744	2,149	1,074	366	3,589	154
City Auditor	828	981	645	288	29	962	19
City Clerk	1,245	1,293	748	344	54	1,147	147
City Council	419	509	224	110	32	366	143
City Manager	3,161	3,562	2,304	1,070	117	3,492	71
Administrative Services	8,362	8,338	5,202	2,416	278	7,897	442
Community Services	28,379	28,839	26,254	203	1,312	27,769	1,069
Fire	33,607	35,355	34,918	163	274	35,354	0
Human Resources	3,554	3,622	2,421	1,088	36	3,545	77
Library	8,421	8,655	8,528	-	108	8,636	19
Office of Transportation	1,904	2,139	1,936	-	74	2,010	129
Planning and Development Services	17,386	19,611	15,830	247	2,705	18,782	830
Police	41,733	42,440	41,328	737	375	42,441	(0)
Public Works	18,397	19,089	13,265	3,920	1,368	18,553	536
Non-Departmental	8,237	9,332	4,599	-	4,659	9,260	71
Total Expenditures	179,118	187,509	160,352	11,661	11,787	183,803	3,707
Add: Operating Trans Out	4,334	4,326	4,326	-		4,326	-
Transfer to Infrastructure	13,467	9,294	9,294	-		9,294	-
Total Use of Funds	196,919	201,129	173,972	11,661	11,787	197,423	3,707
Net Surplus/(Deficit)	(472)	(1,240)	22,861	-	(10,946)	11,913	13,153
Adjustment to Budgetary Basis:							
Unrealized gain/loss on investments						(1,297)	
Chnages in interfund balances						(197)	
Current year encumbrances / reappropriations						10,946	
Prior year encumbrances / reappropriations						(7,570)	
Change in Fund Balance, GAAP Basis						13,795	

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND (102)			
<i>Fire</i>	Salaries & Benefits This action reallocates funding as a result of higher than anticipated salary and benefit expenses in FY 2021. These higher anticipated expenditures are due to several variables, including City Council approval at the October 19, 2020 meeting to extend the attrition period for Firefighter positions that were frozen and defunded in FY 2021 (CMR 11376) from December 2020 to March 2021. Additionally, the department experienced higher than anticipated payments for disability/workers' compensation. These overages were partially offset by overtime savings.	\$ -	\$ 620,000
<i>Non-Departmental</i>	Transient Occupancy Tax/Transfer to Capital Improvement Fund This action decreases the transfer to the Capital Improvement Fund as it relates to Transient Occupancy Tax (TOT) revenues earmarked for city-wide infrastructure improvements due to lower than anticipated TOT collections.	\$ 293,000	\$ 293,000
<i>Non-Departmental</i>	American Rescue Plan Act (ARPA) Funding/ARPA Reserve This action decreases the estimates for ARPA in FY 2021. The City received one of two distributions in FY 2021 (\$6.85 million of the \$13.7 million total), however, no expenditures occurred prior to year end. With this action, staff will defer this funding to FY 2022 in accordance with Government Accounting Standards Board (GASB) pronouncements that require agencies to recognize these distributions in the same period that the related expenditures occur.	\$ (6,850,000)	\$ (6,850,000)
<i>Non-Departmental</i>	Cubberley Community Center Lease with Palo Alto Unified School District (PAUSD) Reconciliation This action appropriates \$604,000 to true up lease payments to PAUSD for the Cubberley Community Center that were underpaid in calendar year 2018 through the end of FY 2020. Funding was previously appropriated in the FY 2020 Mid-Year Review (CMR 10959) to correct for this; however, the actual payments to PAUSD were not updated to align with the increased budget in FY 2020. This will allow the City to pay past due rent to PAUSD for the Cubberley Community Center and move forward in good standing with the current lease agreement.	\$ -	\$ 604,000
<i>Police</i>	Salaries & Benefits This action reallocates funding as a result of higher than anticipated salary and benefit expenses in FY 2021. These higher anticipated expenditures are due to several variables, including overtime to backfill vacancies and critical public safety roles that were frozen and defunded in FY 2021 (CMR 11376). Additionally, the department experienced higher than anticipated payments for disability/workers' compensation. These overages were partially offset by salary savings.	\$ -	\$ 175,000
<i>Public Works</i>	Departmental Expense Savings This action reallocates departmental cost savings within the General Fund in order to offset departments with higher than anticipated expenses in FY 2021. The Public Works Department realized a net General Fund cost savings, primarily due to: salaries and benefits, resulting from hiring freezes and other citywide cost reduction strategies; contract services, resulting from timing delays in procurement processes related to planned maintenance projects; and supplies and materials, mostly due to delayed and postponed maintenance work and repairs related to streets and sidewalks.	\$ -	\$ (795,000)
<i>Public Works</i>	Transfer from Gas Tax Fund/Streets Maintenance This action decreases the transfer from the Gas Tax Fund/Streets Maintenance Fund from \$196,000 to \$96,000 due to lower than anticipated Gas Tax revenues. This reduction resulted in minimal impacts to streets maintenance work, due to reduced capacity as a result of vacancies in the department.	\$ (100,000)	\$ (100,000)
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ (604,000)
GENERAL FUND (102) SUBTOTAL		\$ (6,657,000)	\$ (6,657,000)

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
CAPITAL IMPROVEMENT FUNDS			
<u>GENERAL FUND CAPITAL IMPROVEMENT FUND (471)</u>			
<i>Capital</i>	Capital Improvement Project Adjustments This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	\$ -	\$ 4,500,044
<i>Capital</i>	Transfer from General Fund This action increases the transfer from the General Fund related to TOT revenue Council earmarked to use for city-wide infrastructure improvements due to actual revenue collected being higher than budgeted in FY 2021.	\$ 293,000	\$ -
<i>Capital</i>	Transfer from Gas Tax Fund/Street Maintenance (PE-86070) This action decreases the transfer from the Gas Tax Fund due to actual revenue collected being lower than budgeted in FY 2021. A corresponding transfer is recommended from the Gas Tax Fund to the Capital Improvement Fund. The \$18,000 commensurate reduction in expenses are reflected in the Street Maintenance capital project (PE-86070) as outlined in Attachment B, Exhibit 2.	\$ (18,000)	\$ -
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ (4,225,044)
GENERAL FUND CAPITAL IMPROVEMENT FUND (471) SUBTOTAL		\$ 275,000	\$ 275,000

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

		Revenues	Expenses
Department		Adjustment	Adjustment
INTERNAL SERVICE FUNDS			
<u>WORKERS' COMPENSATION FUND (688)</u>			
<i>Human Resources</i>	Charges to Other Funds	\$ 1,500,000	\$ -
	This action increases the estimate for charges to other funds by \$1.5 million (\$1.0 million in the General Fund) in alignment with actuarial analysis in August 2021 for workers' compensation claims Incurred But Not Reported (IBNR) in FY 2021 at \$2.1 million. Of this amount, \$1.5 million was charged to departments to offset this expense and maintain a positive fund balance. Departments had sufficient savings at the end of FY 2021 to support the additional costs and did not require budgetary adjustments.		
<i>Human Resources</i>	Insurance Claims Paid		\$ 1,500,000
	This action increases the appropriation for insurance claims expense by \$1.5 million in alignment with updated actuarial analysis in August 2021 for workers' compensation claims Incurred But Not Reported (IBNR) in FY 2021 at \$2.1 million. The IBNR claims expense has been fully recognized in FY 2021 and recovered through additional allocations to departments.		
WORKERS' COMPENSATION FUND (688) SUBTOTAL		\$ 1,500,000	\$ 1,500,000

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
SPECIAL REVENUE FUNDS			
<u>PUBLIC ART FUND (207)</u>			
<i>Non-Departmental</i>	Salaries and Benefits This action increases the salaries and benefits appropriation in the Public Art Fund to align with slightly higher than anticipated expenses in FY 2021.	\$ -	\$ 3,000
<i>Non-Departmental</i>	Art Fee Revenues This action increases the estimate for Art Fee revenue as a result of higher than anticipated revenues collected in FY 2021.	\$ 91,930	\$ -
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ 88,930
PUBLIC ART FUND (207) SUBTOTAL		\$ 91,930	\$ 91,930
<u>GAS TAX FUND (231)</u>			
<i>Non-Departmental</i>	State of California Revenue: Gas Tax/Transfer to Capital Improvement Fund and General Fund This action decreases the revenue estimate for State of California Gas Tax allocations to align with lower than anticipated actuals during the period. In FY 2021, the total allocation to the City was \$2.79 million, which was \$41,500 lower than the preliminary estimate of \$2.83 million from the State Department of Finance. Additionally, in order to restore a positive fund balance in the Gas Tax Fund, transfers to the General Fund and Capital Improvement Fund are reduced by \$118,000. This funding is used for transportation and traffic-related capital projects such as the Street Maintenance Capital Improvement Project (PE-86070) and streets maintenance work in the Public Works Department.	\$ (41,500)	\$ (118,000)
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ 76,500
GAS TAX FUND (231) SUBTOTAL		\$ (41,500)	\$ (41,500)

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
DEBT SERVICE & AGENCY TRUST FUNDS			
<u>2021 PUBLIC SAFETY BUILDING COP FUND (363)</u>			
<i>Administrative Services</i>	Bond Proceeds/Debt Service Payment This action recognizes bond proceeds from the sale of certificates of participation to fund construction of the Public Safety Building capital project. This action also appropriates funding for the first interest only debt service payment.	\$ 6,029,400	\$ 1,408,300
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ 4,621,100
2021 PUBLIC SAFETY BUILDING COP FUND (363) SUBTOTAL		\$ 6,029,400	\$ 6,029,400
<u>UNIVERSITY AVENUE PARKING ASSESSMENT AGENCY FUND (775)</u>			
<i>Administrative Services</i>	Contract Services This action increases the appropriation for Contract Services within the fund to align budget levels with actual expenditures in FY 2021.	\$ -	\$ 13,000
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ (13,000)
UNIVERSITY AVENUE PARKING ASSESSMENT AGENCY FUND (775) SUBTOTAL		\$ -	\$ -

ATTACHMENT B, EXHIBIT 2

CITY OF PALO ALTO

RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 CAPITAL IMPROVEMENT PROGRAM

Project Number	Title	Revenue	Expense	Comments
CAPITAL IMPROVEMENT FUND				
AS-10000	Capital Improvement Fund Administration		\$ (562,800)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PG-06003	Benches, Signage, Walkways, Perimeter Landscaping, and Site Amenities		\$ 1,071	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-13011	Charleston/Arastradero Corridor Project		\$ 3,171,040	Adjustment to increase project in FY 2021 with a commensurate reduction in FY 2022 (CMR 12397 technical clean-up action) due to project expenses anticipated in FY 2022 being completed sooner in FY 2021.
PE-17009	City Hall Floor 5 Remodel		\$ 1,021	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PF-14002	Fire Station 1 Improvements		\$ 3,623	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-11011	Highway 101 Pedestrian/Bicycle Overpass Project		\$ 334,031	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
OS-00001	Open Space Trails and Amenities		\$ 105,086	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PO-89003	Sidewalk Repairs		\$ 91,068	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PO-05054	Street Lights Improvements		\$ 26,900	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-86070	Street Maintenance		\$ 1,329,004	Adjustment to align project expenses with actual revenue received from Gas Tax fund transfers (\$-18,000); actual salaries and benefits (\$+117,230); and a commensurate reduction in FY 2022 (CMR 12397 technical clean-up action) due to project expenses anticipated in FY 2022 being completed sooner in FY 2021 (\$+1,229,774).
	Total	\$ -	\$ 4,500,044	
ELECTRIC FUND				
EL-14000	Coleridge/Cowper/Tennyson 4/12kV Conversion		\$ 18,934	Increase to project due to higher than anticipated expenditures with a commensurate expense reduction in EL-11010, which had some project savings.
EL-02010	SCADA System Upgrades		\$ 9,969	Increase to project due to higher than anticipated expenditures with a commensurate expense reduction in EL-11010, which had some project savings.
EL-11010	Underground District 47-Middlefield, Homer, Webster, Addison		\$ (28,903)	Decrease to project due to lower than anticipated expenditures to offset overspent projects.
	Total	\$ -	\$ -	

ATTACHMENT B, EXHIBIT 2

CITY OF PALO ALTO

RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 CAPITAL IMPROVEMENT PROGRAM

Project Number	Title	Revenue	Expense	Comments
FIBER FUND				
FO-10001	Fiber Optics Network - System Improvements		\$ (4,690)	Decrease to project due to lower than anticipated expenditures to offset overspent projects.
FO-16000	Fiber Optics Network - System Rebuild		\$ 4,690	Increase to project due to higher than anticipated expenditures with a commensurate expense reduction in FO-16000, which had some project savings.
	Total	\$ -	\$ -	
GAS FUND				
GS-18000	Gas ABS/Tenite Replacement Project		\$ (126,806)	Decrease to project due to lower than anticipated expenditures to offset overspent projects.
GS-80017	Gas System, Customer Connections		\$ 126,806	Increase to project due to higher than anticipated expenditures with a commensurate expense reduction in GS-18000, which had some project savings.
	Total	\$ -	\$ -	
STORMWATER MANAGEMENT FUND				
SD-19000	Loma Verde Avenue Trunk Line Improvements		\$ (20,016)	Decrease to project due to lower than anticipated expenditures to offset overspent projects.
SD-20000	West Bayshore Road Pump Station		\$ 20,016	Increase to project due to higher than anticipated expenditures with a commensurate expense reduction in SD-19000, which had some project savings.
	Total	\$ -	\$ -	
WASTEWATER COLLECTION FUND				
WC-80020	Sewer System, Customer Connections		\$ 25,888	Increase to project due to higher than anticipated expenditures with a commensurate expense reduction in WC-16001, which had some project savings.
WC-16001	Wastewater Collection System Rehabilitation/Augmentation Project 29		\$ (25,888)	Decrease to project due to lower than anticipated expenditures to offset overspent projects.
	Total	\$ -	\$ -	
WATER FUND				
WS-80014	Water Service and Hydrant Replacement		\$ (152,523)	Decrease to project due to lower than anticipated expenditures to offset overspent projects.
WS-80013	Water System Customer Connections		\$ 152,523	Increase to project due to higher than anticipated expenditures with a commensurate expense reduction in WS-80014, which had some project savings.
	Total	\$ -	\$ -	
TOTAL CIP ADJUSTMENTS		\$ -	\$ 4,500,044	

CITY OF PALO ALTO CALIFORNIA



ANNUAL COMPREHENSIVE FINANCIAL REPORT



**FISCAL YEAR ENDED
JUNE 30, 2021**



CITY OF
**PALO
ALTO**

Fiscal Year 2021 Annual Comprehensive Financial Report

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

City Council

Tom DuBois, Mayor

Patrick Burt, Vice Mayor

Alison Cormack

Eric Filseth

Lydia Kou

Greer Stone

Greg Tanaka

Ed Shikada, City Manager

Kiely Nose, Director of Administrative Services/Chief Financial Officer

Prepared by: Administrative Services Department

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

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For the Year Ended June 30, 2021

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For the Year Ended June 30, 2021

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Transmittal Letter.....



OFFICE OF THE CITY MANAGER

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

November 15, 2021

THE HONORABLE CITY COUNCIL

Palo Alto, California

ANNUAL COMPREHENSIVE FINANCIAL REPORT

YEAR ENDED JUNE 30, 2021

Members of the Council and Citizens of Palo Alto:

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

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

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

CITY OF PALO ALTO PROFILE

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

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

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

FISCAL/ECONOMIC CONDITIONS AND OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SIGNIFICANT EVENTS AND ACCOMPLISHMENTS



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

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

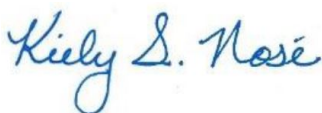
- Received the Smart Energy Provider Award from American Public Power Association (APPA), which recognizes utilities for demonstrating commitment and accomplishment in smart energy program planning; energy efficiency and distributed energy resources; environmental and sustainability programs; and communication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

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

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

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

Respectfully submitted,



KIELY NOSE
Chief Financial Officer



ED SHIKADA
City Manager

City of Palo Alto City Officials

City Council

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

Finance Committee

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

Policy and Services Committee

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

Council-Appointed Officers

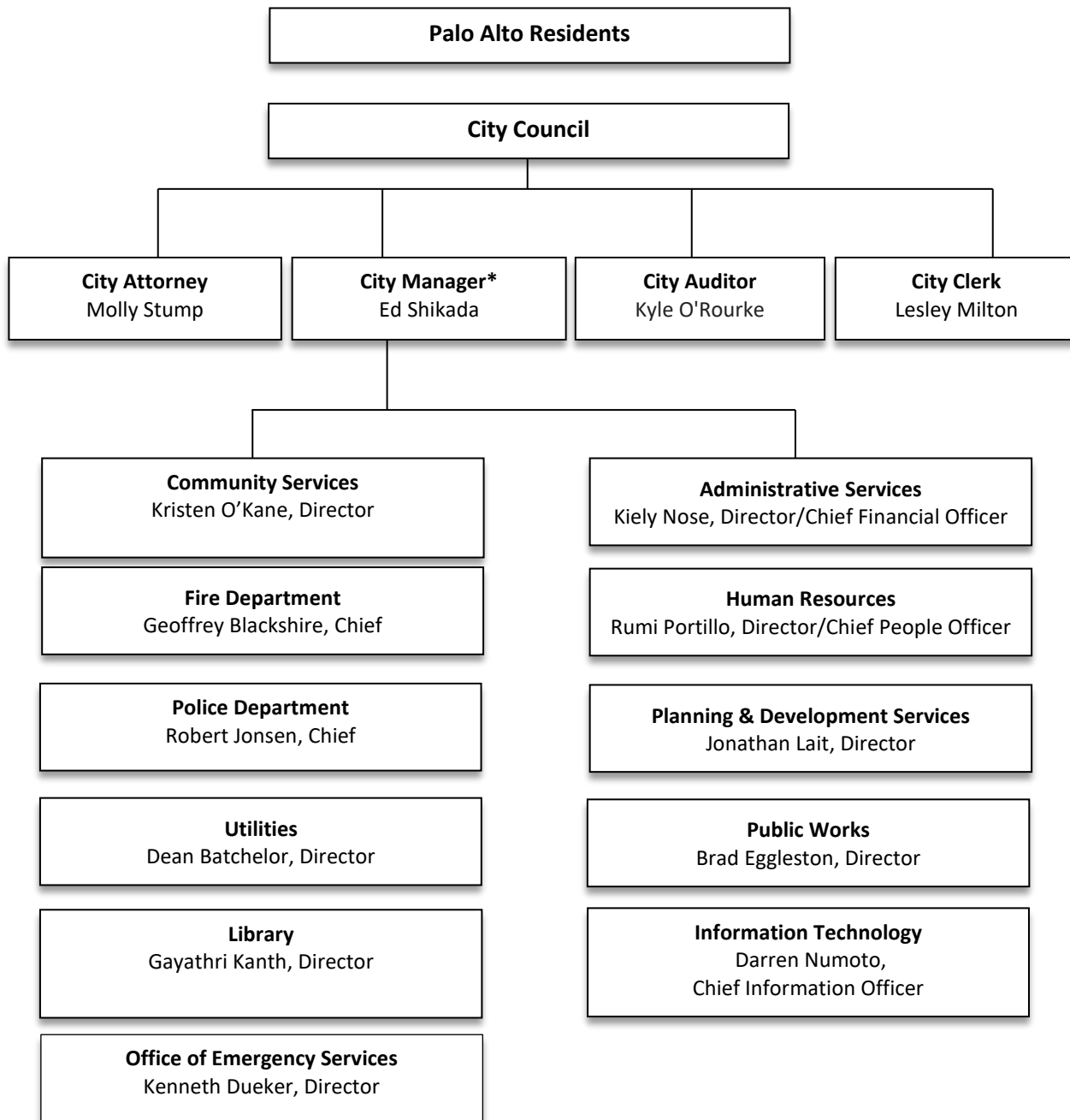
City Manager
Ed Shikada

City Attorney
Molly Stump

City Clerk
Lesley Milton

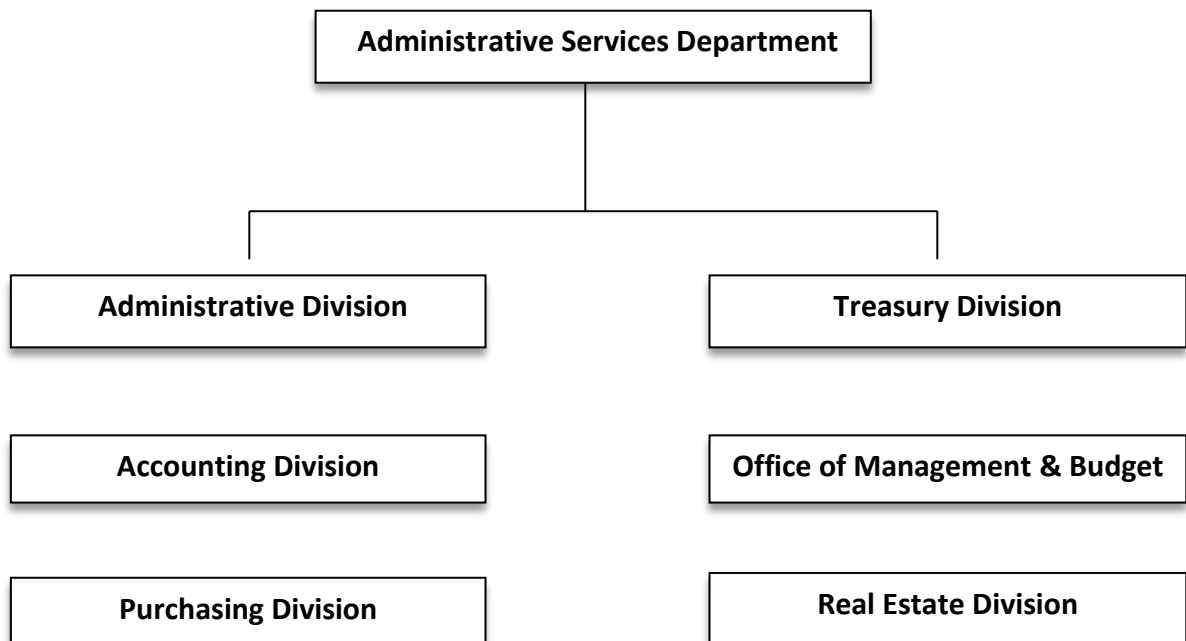
City Auditor
Kyle O'Rourke

City of Palo Alto Organization



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

Administrative Services Organization



Mission Statement

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

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



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**City of Palo Alto
California**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2020

Christopher P. Morill

Executive Director/CEO

Independent Auditor's Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

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

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

Walnut Creek, California

November 15, 2021

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Management's Discussion and Analysis (Unaudited)

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

FINANCIAL HIGHLIGHTS

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

OVERVIEW OF THE ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR)

The ACFR is presented in five sections:

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

Government-wide Financial Statements

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

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

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

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

Governmental Activities

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

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

Business-type Activities

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

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

Fund Financial Statements

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

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

Governmental Funds

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

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

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

Proprietary Funds

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

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

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

Fiduciary Funds

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

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

Notes to the Basic Financial Statements

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

Required and Other Supplemental Information

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

FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

CONDENSED STATEMENT OF NET POSITION

As of June 30
(in millions)

	Governmental Activities		Business-type Activities		Government-wide Totals	
	2021	2020	2021	2020	2021	2020
Cash and investments	\$ 443.4	\$ 342.8	\$ 285.6	\$ 277.4	\$ 729.0	\$ 620.2
Other assets	76.6	60.5	47.7	52.8	124.3	113.3
Capital assets	602.0	596.3	708.5	693.2	1,310.5	1,289.5
Total Assets	1,122.0	999.6	1,041.8	1,023.4	2,163.8	2,023.0
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
Total Deferred Outflows of Resources	60.8	55.8	24.2	21.1	85.0	76.9
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
Total Liabilities	743.3	590.3	252.4	249.9	995.7	840.2
Pension and OPEB related	16.3	24.5	6.4	9.6	22.7	34.1
Total Deferred Inflows of Resources	16.3	24.5	6.4	9.6	22.7	34.1
Net Position						
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
Total Net Position	\$ 423.2	\$ 440.6	\$ 807.2	\$ 785.0	\$ 1,230.4	\$ 1,225.6

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

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

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

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

Governmental Activities – Net Position

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

CONDENSED STATEMENT OF NET POSITION GOVERNMENTAL ACTIVITIES As of June 30 (in millions)

	2021	2020	Increase/ (Decrease)
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
Total Assets	1,122.0	999.6	122.4
Pension and OPEB related	60.8	55.8	5.0
Total Deferred Outflows of Resources	60.8	55.8	5.0
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
Total Liabilities	743.3	590.3	153.0
Pension and OPEB related	16.3	24.5	(8.2)
Total Deferred Inflows of Resources	16.3	24.5	(8.2)
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)
Total Net Position	\$ 423.2	\$ 440.6	\$ (17.4)

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.

GOVERNMENTAL ACTIVITIES			
<i>Revenues for the Year Ended June 30</i>			
(in millions)			
Revenues by Source	2021	2020	Increase/ (Decrease)
Program Revenues:			
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
Total Program Revenues	69.8	68.7	1.1
General Revenues:			
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
Total General Revenues	128.3	144.6	(16.3)
Total Revenues	\$ 198.1	\$ 213.3	\$ (15.2)

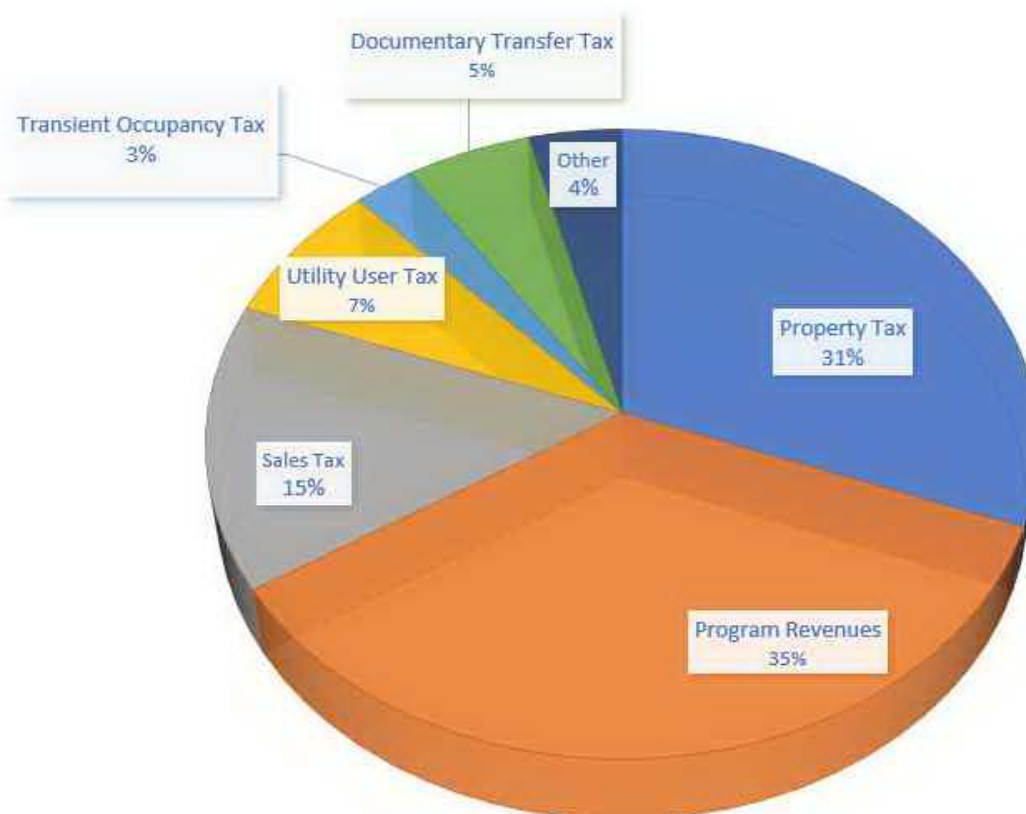
Program Revenues such as charges for services, operating grants and contributions, and capital grants and contributions are generated from or restricted to each activity. Total Program Revenues increased \$1.1 million, or 1.6 percent, from the prior year.

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.

GOVERNMENTAL ACTIVITIES			
<i>Expenses and Change in Net Position for the Year Ended June 30</i>			
(in millions)			
Activities	2021	2020	Increase/ (Decrease)
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
Total Functional Expense	234.6	242.9	(8.3)
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)
Net Position, Ending	\$ 423.2	\$ 440.6	\$ (17.4)

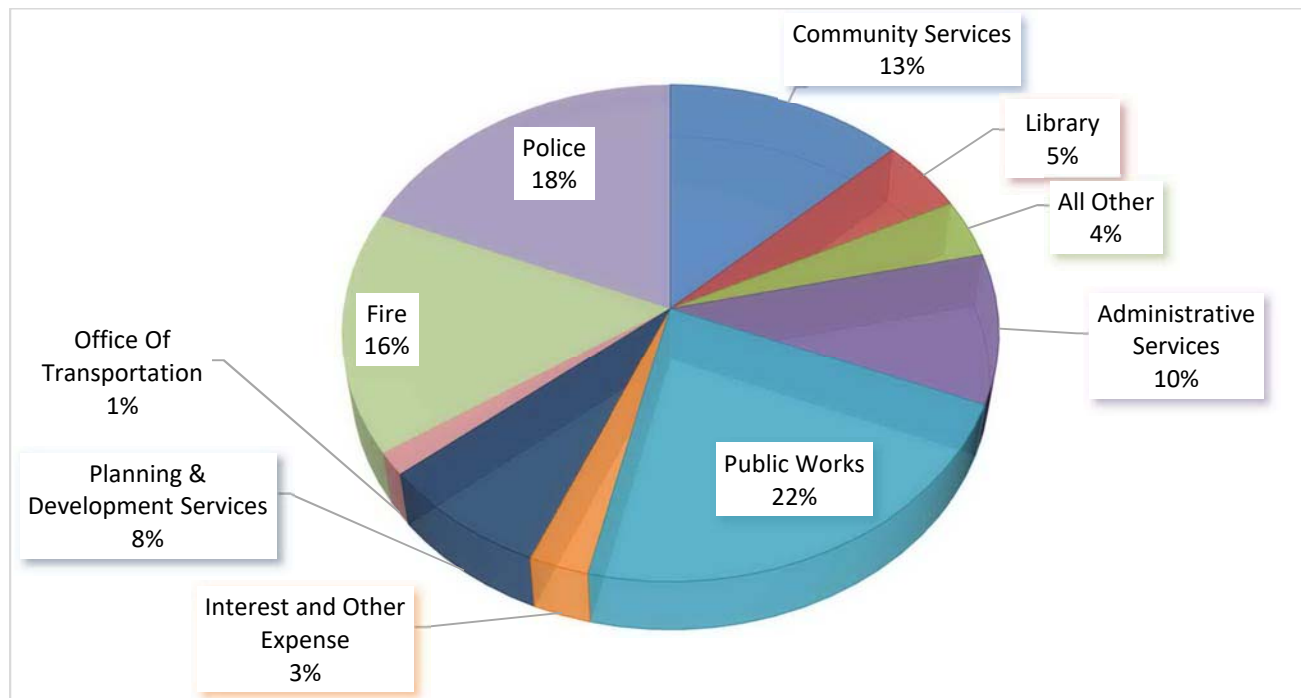
Functional expenses consisted of depreciation, uncapitalized operating expenses from capital project funds, internal service funds allocation, changes in pension and OPEB liabilities due to deferred contributions, and the amortization of pension and OPEB-related outflows and inflows of resources.

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.

CONDENSED STATEMENT OF NET POSITION			
BUSINESS-TYPE ACTIVITIES			
<i>As of June 30</i>			
(in millions)			
	2021	2020	Increase/ (Decrease)
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
Total Assets	1,041.8	1,023.4	18.4
Unamortized loss from refunding	0.1	0.2	(0.1)
Pension and OPEB related	24.1	20.9	3.2
Total Deferred Outflows of Resources	24.2	21.1	3.1
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
Total Liabilities	252.4	249.9	2.5
Pension and OPEB related	6.4	9.6	(3.2)
Total Deferred Inflows of Resources	6.4	9.6	(3.2)
Net Position			
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
Total Net Position	\$ 807.2	\$ 785.0	\$ 22.2

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.

BUSINESS-TYPE ACTIVITIES			
<i>Revenues for the Year Ended June 30</i>			
(in millions)			
Revenues by Source	2021	2020	Increase/ (Decrease)
Program Revenues:			
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	-
Total Program Revenues	353.4	359.9	(6.5)
General Revenues:			
Investment earnings	2.2	11.5	(9.3)
Total General Revenues	2.2	11.5	(9.3)
Total Revenues	\$ 355.6	\$ 371.4	\$ (15.8)

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			
<i>Expenses and Change in Net Position for the Year Ended June 30</i>			
(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)
Total Functional Expense	<u>314.3</u>	<u>307.6</u>	<u>6.7</u>
 Increase in Net Position before Transfers	 41.3	 63.7	 (22.4)
Transfers	<u>(19.1)</u>	<u>(20.2)</u>	<u>1.1</u>
 Change in Net Position	 22.2	 43.5	 (21.3)
Net Position, Beginning	<u>785.0</u>	<u>741.5</u>	<u>43.5</u>
Net Position, Ending	<u>\$ 807.2</u>	<u>\$ 785.0</u>	<u>\$ 22.2</u>

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

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

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

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

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

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

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

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

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

General Fund

Balance Sheet

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Expenditures by Function	2021	2020	Increase/ (Decrease)
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)
Total Expenditures	\$ 160.3	\$ 182.1	\$ (21.8)

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.

GENERAL FUND				
<i>Budgeted Revenues for the Year Ended June 30</i>				
(in millions)				
<u>Budgeted Revenues</u>	<u>Adopted Budget</u>	<u>Final Budget</u>	<u>Increase/ (Decrease)</u>	
Property tax	\$ 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	
Total Budgeted Revenues	<u>\$ 175.1</u>	<u>\$ 178.8</u>	<u>\$ 3.7</u>	

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
Total Budgeted Expenditures	<u>\$ 179.1</u>	<u>\$ 187.5</u>	<u>\$ 8.4</u>	183.8
Less: Charges to Other Funds and Departments				(11.7)
Less: Encumbrances and Reappropriations				(11.8)
Net General Fund Expenditures				<u>\$ 160.3</u>

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.

ENTERPRISE FUNDS			
<i>Change in Net Position for the Year Ended June 30</i>			
(in millions)			
Fund Name	2021	2020	Increase/ (Decrease)
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
Total Change in Net Position	\$ 22.2	\$ 39.6	\$ (17.4)

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)
Governmental activities			
Capital Assets			
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)
Internal Service funds			
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)
Total Governmental Activities	\$ 602.0	\$ 596.3	\$ 5.7
Business-Type Activities			
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)
Total Business-type Activities	\$ 708.5	\$ 693.2	\$ 15.3

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)
Governmental Activities			
General Long-Term Obligations			
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
Total Governmental Activities	\$ 217.5	\$ 112.5	\$ 105.0
Business-type Activities			
Enterprise Long-Term Obligations			
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)
Total Business-type Activities	\$ 68.9	\$ 74.5	\$ (5.6)

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

See accompanying notes to the basic financial statements.

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

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

See accompanying notes to the basic financial statements.

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

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
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	\$ 92,414	\$ 172,105	\$ 125,172	\$ 389,691
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:				
Liabilities:				
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	16,769	5,491	870	23,130
Deferred inflows of resources				
Deferred inflows of resources - Unavailable revenue	9	910	-	919
Total liabilities and deferred inflows of resources	16,778	6,401	870	24,049
Fund balances (Note 10):				
Nonspendable:				
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
Restricted for:				
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
Committed for:				
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
Assigned for:				
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
Unassigned for:				
Budget Stabilization	49,089	-	-	49,089
Total fund balances	75,636	165,704	124,302	365,642
Total liabilities, deferred inflows of resources, and fund balances	\$ 92,414	\$ 172,105	\$ 125,172	\$ 389,691

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

See accompanying notes to the basic financial statements.

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

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

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

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

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

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

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

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

Change in net position of governmental activities	<u>7,180</u> <u>\$ (17,437)</u>
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See accompanying notes to the basic financial statements.

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

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

See accompanying notes to the basic financial statements.

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

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
ASSETS:				
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
DEFERRED OUTFLOWS OF RESOURCES:				
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
LIABILITIES:				
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
DEFERRED INFLOWS OF RESOURCES:				
OPEB related (Note 12)	802	2,495	17	1,024
NET POSITION (Note 10):				
Net Investment in capital assets	105,676	209,851	9,311	107,440
Restricted for:				
Debt service	2,906	-	-	434
Supplemental pension	-	-	-	-
Unrestricted (deficit)	32,985	74,481	34,492	11,621
Total net position	\$ 141,567	\$ 284,332	\$ 43,803	\$ 119,495

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

Net position reported in Business-type Activities

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

See accompanying notes to the basic financial statements.

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

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
OPERATING REVENUES:				
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>
OPERATING EXPENSES:				
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>
NONOPERATING REVENUES (EXPENSES):				
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	

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\$ 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>

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
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For the Year Ended June 30, 2021

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Reporting Entity

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

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

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

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

(b) Basis of Presentation

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

(b) Basis of Presentation (Continued)

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

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

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

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

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

(c) Major Funds and Other Funds

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(c) Major Funds and Other Funds (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Major Funds and Other Funds (Continued)

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

The City also reports the following funds:

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

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

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

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

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Major Funds and Other Funds (Continued)

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

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

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

(d) Basis of Accounting

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Cash and Cash Equivalents

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

(f) Investments

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

(g) Inventory of Materials and Supplies

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

(h) Prepaid items

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

(i) Compensated Absences

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Property Tax

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

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

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

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

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

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

(l) Pensions and OPEB

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

(m) Rounding

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Effects of New Pronouncements

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Effects of New Pronouncements (Continued)

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this statement are 1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and 2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for the City's fiscal year ending June 30, 2022.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosure. The requirements of this statement are effective for the City's fiscal year ending June 30, 2023.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. The requirements of this statement are effective for the City's fiscal year ending June 30, 2022.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate. The requirements of this statement are effective for the City's fiscal year ending June 30, 2022.

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Effects of New Pronouncements (Continued)

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

(o) Use of Estimates

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

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

1. The City Manager submits proposed operating and capital budgets to the City Council for the fiscal year commencing the following July 1. The budget includes planned expenditures and the means of financing them.
2. Public hearings are conducted to obtain comments on the proposed budgets.
3. The budget is approved with the adoption of a budget ordinance for all funds except Custodial Funds.
4. Per the Palo Alto Municipal Code, only the City Manager is authorized to reallocate funds from contingency accounts maintained in the General Fund. Amendments to appropriations to departments in the General Fund, to total appropriations for all other budgeted funds, or to transfer of appropriations between funds, require approval by the City Council. Amendments to budgeted revenue and expenditures are added to or subtracted from the Adopted Budget and the resulting totals are reflected as Final Budget amounts.
5. As defined in the Palo Alto Municipal Code, expenditures may not exceed budgeted appropriations at the department level for the General Fund, and at the fund level for Enterprise, Internal Service, Special Revenue and Debt Service Funds.

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

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING (Continued)

6. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP), except that unrealized gains or losses on investments, changes in advances to other funds and notes receivable are not recognized on a budgetary basis and encumbrances are treated as budgetary expenditures when incurred.
7. Expenditures for the Capital Projects Fund are budgeted and maintained at a project level for the life of the project. Budget to actual comparisons for these expenditures have been excluded from the accompanying financial statements.

NOTE 3 – CASH AND INVESTMENTS

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

Policies

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

Classification

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

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash and investments:				
Available for operations	\$ 310,091	\$ 282,271	\$ 3,276	\$ 595,638
With fiscal agents and trustees	133,264	3,340	2,705	139,309
Total cash and investments	<u>\$ 443,355</u>	<u>\$ 285,611</u>	<u>\$ 5,981</u>	<u>\$ 734,947</u>

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

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

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

NOTE 3 – CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Government Securities	10 years (*)	N/A	No Limit	No Limit
U.S. Federal Agency Securities (C)	10 years (*)	N/A	No Limit (A)	No Limit
Certificates of Deposit	10 years (*)	N/A	20%	10% of the par value of portfolio
Bankers Acceptances	180 days (D)	N/A (D)	30%	\$5 million
Commercial Paper	270 days	A-1	15%	\$3 million (B)
Local Agency Investment Fund	N/A	N/A	No Limit	\$75 million per account
Short-Term Repurchase Agreements	1 year	N/A	No Limit	No Limit
City of Palo Alto Bonds	N/A	N/A	No Limit	No Limit
Money Market Mutual Funds	N/A	N/A (E)	No Limit	No Limit
Mutual Funds (F)	N/A	N/A	20%	10%
Negotiable Certificates of Deposit	10 years (*)	N/A	10%	\$5 million
Medium-Term Corporate Notes	5 years	AA	10%	\$5 million
Bonds of State of California Municipal Agencies & Other U.S. States	10 years (*)	AA/AA2	30%	No Limit
Supranational	5 years	AA/AA2	20%	10% of the par value of portfolio

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

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

Debt Agreements:

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

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

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

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

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

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

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

NOTE 3 – CASH AND INVESTMENTS (Continued)

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

Fair Value Measurements

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

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

The following is a summary of the fair value measurements of the City as of June 30, 2021 (in thousands):

Type of Investment	June 30, 2021	Level 2
Investments by fair value hierarchy		
U.S. Federal Agency Securities	\$ 243,526	\$ 243,526
U.S. Treasury Notes	13,680	13,680
Local Government Bonds	172,085	172,085
Negotiable Certificates of Deposit	36,271	36,271
Corporate Bonds	24,491	24,491
Supranational Bonds	31,792	31,792
Total investments by fair value hierarchy	521,845	<u>\$ 521,845</u>
Investment not subject to fair value hierarchy		
Money Market Mutual Funds	103,428	
Equity Mutual Funds (Irrevocable for Pension)	37,089	
California Asset Management Program	3,304	
Local Agency Investment Fund	67,394	
Total investments not subject to fair value hierarchy	<u>211,215</u>	
Total investments measured at fair value	<u>\$ 733,060</u>	

Local Agency Investment Fund

The City participates in the Local Agency Investment Fund (LAIF) which, under the oversight of the Treasury of the State of California, is regulated by California Government Code Section 16429. LAIF management calculates the fair value and cost of the entire LAIF pool. The City adjusts its cost basis invested in LAIF to fair value based on this ratio. The fair value of the City's position in the pool is the same as the value of the pool share. The balance available for withdrawal on demand is based on

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

NOTE 3 – CASH AND INVESTMENTS (Continued)

accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is part of the State's Pooled Money Investment Account (PMIA). The total balance of the PMIA is approximately \$193.3 billion as of June 30, 2021. Of that amount, 97.7 percent was invested in nonderivative financial products and 2.3 percent in structured notes and asset backed securities. At June 30, 2021, LAIF had a weighted average maturity of 291 days.

Money Market Mutual Funds

Money market mutual funds are available for withdrawal on demand and at June 30, 2021, had a weighted average maturity of approximately 1 month.

California Asset Management Program

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The City's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. The City reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2021, the fair value approximated the City's cost. CAMP had a weighted average maturity of 52 days at June 30, 2021.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. As of June 30, 2021, the City's investments consisted of the following (in thousands):

Type of Investment	Maturities				Total
	Less Than One Year	One to Three Years	Three to Five Years	Over Five Years	
U.S. Federal Agency Securities	\$ 23,669	\$ 50,617	\$ 75,136	\$ 94,104	\$ 243,526
U.S. Treasury Notes	1,517	9,215	2,948	-	13,680
Local Government Bonds	24,545	27,492	47,841	72,207	172,085
Corporate Bonds	860	7,547	16,084	-	24,491
Money Market Mutual Funds	103,428	-	-	-	103,428
Equity Mutual Funds					
(Irrevocable for Pension)	37,089	-	-	-	37,089
Negotiable Certificates of Deposit	10,287	12,527	9,801	3,656	36,271
California Asset Management Program	3,304	-	-	-	3,304
Supranational Bonds	-	4,257	27,535	-	31,792
Local Agency Investment Fund	67,394	-	-	-	67,394
Total Investments	<u>\$ 272,093</u>	<u>\$ 111,655</u>	<u>\$ 179,345</u>	<u>\$ 169,967</u>	<u>733,060</u>
Cash in bank and on hand					1,887
Total Cash and Investments					<u>\$ 734,947</u>

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

NOTE 3 – CASH AND INVESTMENTS (Continued)

Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

At June 30, 2021, the City's investments (including investments held by bond trustees) include U.S. Federal Agency Callable Securities totaling \$137.0 million. These investments are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above) and are subject to early redemption.

Credit Risk

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

Presented below is the actual rating as provided by Standard & Poor's, Moody's and/or Fitch's investment rating system as of June 30, 2021, for each investment type (in thousands):

Type of Investment	Rating	Total
U.S. Federal Agency Securities	AA+	\$ 243,526
Corporate Bonds	AAA	19,076
	AA+	5,415
Total Corporate Bonds		24,491
Local Government Bonds	AAA	52,338
	AA+	50,433
	AA	41,241
	N/A	28,073
Total Government Bonds		172,085
Supranational Bonds	AAA	31,792
Money Market Mutual Funds	AAA	103,428
Subtotal rated investments		575,322
Not Applicable:		
U.S. Treasury Notes		13,680
Not Rated:		
California Asset Management Program		3,304
Local Agency Investment Fund		67,394
Negotiable Certificates of Deposit		36,271
Equity Mutual Funds (Irrevocable for Pension)		37,089
Cash in bank and on hand		1,887
Total Cash and Investments		\$ 734,947

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

NOTE 3 – CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5 percent or more of total City portfolio investments are as follows at June 30, 2021 (in thousands):

Investments	Reporting Type	Fair Value at Year-End
Federal Agricultural Mortgage Corporation	U.S. Federal Agency Securities	\$ 88,423
Federal Home Loan Mortgage Corporation	U.S. Federal Agency Securities	45,987
Federal Home Loan Bank	U.S. Federal Agency Securities	43,991
Federal Farm Credit Bank	U.S. Federal Agency Securities	39,439

Custodial Credit Risk

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

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

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

NOTE 4 – INTERFUND TRANSACTIONS

Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to subsidize a fund. Less often, a transfer may be made to open or close a fund. Transfers between City funds during fiscal year 2021 were as follows on the following page (in thousands):

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
General Fund	Nonmajor Governmental Funds	\$ 394 A
	Electric Services Fund	13,639 B
	Gas Services Fund	6,847 B
		<u>20,880</u>
Capital Projects Fund	General Fund	9,294 C
	Nonmajor Governmental Funds	9,170 C
	Water Services Fund	84 C
	Electric Services Fund	165 C
	Fiber Optics Fund	10 C
	Gas Services Fund	69 C
	Wastewater Collection Fund	41 C
	Refuse Fund	10 C
	Storm Drainage Fund	150 C
	Internal Service Funds	<u>205 C</u>
		<u>19,198</u>
Nonmajor Governmental Funds	General Fund	1,019 A
	Capital Projects Fund	2,380 A
	Water Services Fund	13 A
	Electric Services Fund	24 A
	Fiber Optics Fund	1 A
	Gas Services Fund	10 A
	Wastewater Collection Fund	6 A
	Internal Service Funds	<u>27 A</u>
		<u>3,480</u>
Water Services Fund	Gas Services Fund	279 C
	Wastewater Collection Fund	<u>278 C</u>
		<u>557</u>
Electric Services Fund	General Fund	2,082 D
	Water Services Fund	137 C
	Gas Services Fund	136 C
	Fiber Optics Fund	102 C
	Internal Service Funds	<u>125 C</u>
		<u>2,582</u>
Internal Service Funds	General Fund	1,225 E
	Water Services Fund	34 E
	Electric Services Fund	117 E
	Fiber Optics Fund	5 E
	Gas Services Fund	28 E
	Wastewater Collection Fund	17 E
	Refuse Fund	20 E
	Storm Drainage Services Fund	4 E
	Internal Service Funds	<u>2,347 F</u>
		<u>3,797</u>
	Total	<u>\$ 50,494</u>

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

NOTE 4 – INTERFUND TRANSACTIONS (Continued)

The reasons for these transfers are set forth below:

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

Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2021, the non-major Street Improvement Special Revenue Fund, the non-major Federal Revenue Special Revenue Fund, and the non-major Airport Enterprise Fund owed the General Fund \$206,000, \$135,000, and \$602,000, respectively.

Long-Term Interfund Advance

On December 6, 2010, the City Council accepted an Airport Business Plan of the Palo Alto Airport (PAO) and approved creation of the Airport Enterprise Fund to facilitate the transition of PAO control from the County of Santa Clara to the City. The City Council approved six separate general fund advances to the non-major Airport Enterprise Fund. All advances bear interest equal to the average return yield on the City's investment portfolio. The six separate advances and interest incurred have been consolidated and are scheduled to be repaid by June 2034. At June 30, 2021, the outstanding advances was \$3.0 million.

Internal Balances

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

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

NOTE 5 – NOTES AND LOANS RECEIVABLE

At June 30, 2021, the City's notes and loans receivable totaled (in thousands):

Palo Alto Housing Corporation:	
Tree House Apartments	\$ 5,344
Emerson Street Project	375
Alma Single Room Occupancy Development	2,222
Barker Hotel	2,111
Sheridan Apartments	2,222
Oak Court Apartments, L.P.	7,834
El Dorado Palace, LLC	150
Mid-Peninsula Housing Coalition:	
Palo Alto Gardens Apartments	100
Community Working Group, Inc.	1,280
Opportunity Center Associates, L.P.	945
Home Rehabilitation Loans	46
Executive Relocation Assistance Loans	826
Below Market Rate Assessment Loans	53
Oak Manor Townhouse Water System	114
Lytton Gardens Assisted Living	101
Emergency Housing Consortium	75
Alma Gardens Apartments	1,150
2811-2825 Alma Street Acquisition	1,890
Palo Alto Family Housing, 801 Alma Street	6,422
Palo Alto Senior Housing Project - Stevenson House, LP	901
MP Palo Alto Garden, LLC	672
Colorado Park Housing Corporation	204
Buena Vista Mobile Home Park – Santa Clara County	14,500
Wilton Court Apartments	18,752
	<hr/>
Total Notes and Loans Receivable	49,537
Less: Valuation Allowance	(14,612)
	<hr/>
Total Notes and Loans Receivable, Net	\$ 53,677

Housing Loans

The City engages in programs designed to encourage construction or improvement in low-to-moderate income housing or other projects. Under these programs, grants or loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the City's terms. These loans have been offset by restricted or committed fund balances, as they are not expected to be repaid immediately.

Some of these loans contain forgiveness clauses that provide for the amount loaned to be forgiven if the third party maintains compliance with the terms of the loan and associated regulatory agreements. Since some of these loans are secured by trust deeds that are subordinated to other debt on the associated projects or are only repayable from residual cash receipts on the projects, collectability of some of the outstanding balances may not be realized. As a result of the forgiveness clauses and nature of these housing projects and associated cash flows, a portion of the outstanding balances of the loans has been offset by a valuation allowance.

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

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Tree House Apartments

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

Emerson Street Project

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

Alma Single Room Occupancy Development

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

Barker Hotel

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

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

Sheridan Apartments

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

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

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Oak Court Apartments, L.P.

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

El Dorado Palace, LLC

On June 22, 2015, the City approved a loan to PAHC in the amount of \$375,000 to increase the supply of affordable low income housing in the City. The City loaned \$52,000 and \$13,000 in June 2017 and March 2018, respectively. In February 2019, the City loaned an additional \$85,000. The loan bears three percent (3%) interest, however in the event of default will accrue at the lesser of 8% or the highest rate permitted by law. The term of the loan shall expire 55 years unless the City agree to extend an additional 44 years. As of June 30, 2021, the outstanding balance was \$150,000.

Palo Alto Gardens Apartments

On April 22, 1999, the City loaned \$1.0 million to Mid-Peninsula Housing Coalition (the Coalition) for the purchase and rehabilitation of a 155-unit complex for the continuation of low-income housing. The loan was funded with \$659,000 of CDBG funds and \$341,000 of Housing In-Lieu funds. The two notes bear interest at 3 percent and are secured by second deeds of trust and a City Affordability Reserve Account held by the Coalition. The remaining principal balance is due in 2039. As of June 30, 2021, the outstanding balance was \$100,000.

Community Working Group, Inc.

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

Opportunity Center Associates, L.P.

On July 19, 2004, the City loaned \$750,000 for a 55-year term to Opportunity Center Associates, L.P. for construction of 89 units of rental housing for extremely low-income and very low-income households. The loan was funded with \$750,000 of residential housing funds. The note bears 3 percent interest and is secured by a deed of trust. The loan remains outstanding and becomes due at the end of the 55-year term. During fiscal year 2019, the City received \$25,000 in principal payments. On April 17, 2019, the City approved up to an additional \$220,000 loan drawn from CDBG for the improvement of rental housing. In February 2019 and April 2019, the City loaned \$191,000 and \$29,000, respectively. The note bears 3 percent interest, and all payments of interest and principal shall be deferred until July 19, 2103. The loan balance owed as of June 30, 2021 was \$945,000.

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

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Home Rehabilitation Loans

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

Executive Relocation Assistance Loans

The City Council may authorize a mortgage loan as part of a relocation assistance package to executive staff. The loans are secured by first deeds of trust, and interest is adjusted annually based on the rate of return of invested funds of the City for the year ended June 30 plus one-quarter of a percent. Principal and interest payments are due monthly. Employees must pay any outstanding balance on their loans within a certain period after ending employment with the City. During the year ended June 30, 2020, the City entered into a 30-year loan with the City Manager for \$845,000. The purchase cost for the City Manager's home was \$3.4 million and the City holds 75 percent equity share. During the year ended June 30, 2021, the City Manager paid \$21,000 for capital improvements and \$100,000 to the City to exercise a one-time option to purchase a portion of the City's equity share which decreased to 71.43 percent. As of June 30, 2021, the outstanding balance was \$826,000.

Below Market Rate Assessment Loans

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

Oak Manor Townhouse Water System

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

Lytton Gardens Assisted Living

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

Emergency Housing Consortium

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

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

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Alma Garden Apartments

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

2811-2825 Alma Street Acquisition

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

Palo Alto Family Housing, 801 Alma Street

On February 14, 2011, the City agreed to loan Palo Alto Family, LP up to \$9.3 million for the purposes of predevelopment expenses and acquiring certain real property for the Alma Street Affordable Multi-Family Rental Housing Project. The loan bears simple interest of 3 percent. Principal and interest are due and payable during the term of the agreement on a “residual receipt” basis as described in the agreement. Except in the case of default, all remaining principal and interest shall be payable on the Restriction Termination Date as defined in the agreement. As of June 30, 2021, the outstanding amount is \$6.4 million.

Palo Alto Senior Housing Project – Stevenson House, LP

On October 1, 2015, the City entered into an affordable housing fund loan agreement with PASHPI Stevenson House LP, a California limited partnership, in the principal amount of \$1 million to assist in the rehabilitation of the Stevenson House. The loan bears simple interest of 3 percent. As of June 30, 2021, the loan outstanding balance is \$901,000 and is due at the end of the 55-year term.

MP Palo Alto Garden, LLC

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

Colorado Park Housing Corporation

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

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

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Buena Vista Mobile Home Park – Santa Clara County

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

Wilton Court Apartments

In October 2020, the City entered into a predevelopment and construction loan agreement with Wilton ECR L.P. to construct approximately fifty-nine (59) residential rental units on property located at 3703-3709 El Camino Real with the City. Fifty-eight (58) would be affordable to low, very low, and extremely low-income households earning between thirty percent to sixty percent of area median income as determined by the United States Department of Housing and Urban Development, of which twenty-one (21) of the units will be designated for persons with developmental disabilities. The City entered into a loan agreement with Wilton ECR L.P. in the amount of \$18.8 million. The loan bear interest rate of 0% until the date of the permanent closing and 3% commencing the date of the permanent closing. The loan matures on December 31, 2077. During the year, \$18.8 million was drawn. As of June 30, 2021, the outstanding balance was \$18.8 million.

NOTE 6 – CAPITAL ASSETS

Valuation

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

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

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

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

NOTE 6 – CAPITAL ASSETS (Continued)

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

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

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

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

NOTE 6 – CAPITAL ASSETS (Continued)

Governmental Activities

Changes in the capital assets for governmental activities during the year ended June 30, 2021 were (in thousands):

	Balance July 1, 2020	Additions	Retirements	Transfers	Balance June 30, 2021
<i>Governmental activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 82,206	\$ -	\$ (75)	\$ -	\$ 82,131
Street trees	14,787	165	(127)	-	14,825
Intangible assets - Easement	3,567	-	-	-	3,567
Construction in progress	139,365	33,143	(11,934)	(22,761)	137,813
Total nondepreciable capital assets	239,925	33,308	(12,136)	(22,761)	238,336
Depreciable capital assets:					
Buildings and structures	251,119	-	(25)	21,003	272,097
Intangible assets - Software	279	-	-	-	279
Equipment	15,737	217	(520)	1,758	17,192
Roadway network	335,202	-	-	-	335,202
Recreation and open space network	35,186	-	-	-	35,186
Total depreciable capital assets	637,523	217	(545)	22,761	659,956
Less accumulated depreciation:					
Buildings and structures	(105,984)	(7,728)	1	-	(113,711)
Intangible assets - Software	(279)	-	-	-	(279)
Equipment	(8,856)	(460)	389	-	(8,927)
Roadway network	(171,522)	(7,694)	-	-	(179,216)
Recreation and open space network	(15,867)	(1,254)	-	-	(17,121)
Total accumulated depreciation	(302,508)	(17,136)	390	-	(319,254)
Depreciable capital assets, net	335,015	(16,919)	(155)	22,761	340,702
Internal service fund capital assets					
Construction in progress	2,723	2,864	-	-	5,587
Equipment	63,476	1,964	(2,415)	-	63,025
Less accumulated depreciation	(44,834)	(3,153)	2,316	-	(45,671)
Net internal service fund capital assets	21,365	1,675	(99)	-	22,941
Governmental activities capital assets, net	\$ 596,305	\$ 18,064	\$ (12,390)	\$ -	\$ 601,979

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

NOTE 6 – CAPITAL ASSETS (Continued)

Business-Type Activities Capital Assets

Changes in the capital assets for the business-type activities during the year ended June 30, 2021 were (in thousands):

	Balance July 1, 2020	Additions	Retirements	Transfers	Balance June 30, 2021
<i>Business-type activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 4,973	\$ -	\$ -	\$ -	\$ 4,973
Construction in progress	121,096	38,420	-	(30,580)	128,936
Total nondepreciable capital assets	126,069	38,420	-	(30,580)	133,909
Depreciable capital assets:					
Buildings and structures	74,568	-	-	-	74,568
Infrastructure	633	-	-	-	633
Transmission, distribution and treatment systems	884,791	572	(1,154)	30,580	914,789
Total depreciable capital assets	959,992	572	(1,154)	30,580	989,990
Less accumulated depreciation:					
Buildings and structures	(16,141)	(1,393)	-	-	(17,534)
Infrastructure	(65)	(21)	-	-	(86)
Transmission, distribution and treatment systems	(376,604)	(22,192)	1,026	-	(397,770)
Total accumulated depreciation	(392,810)	(23,606)	1,026	-	(415,390)
Depreciable capital assets, net	567,182	(23,034)	(128)	30,580	574,600
Business-type activities capital assets, net	\$ 693,251	\$ 15,386	\$ (128)	\$ -	\$ 708,509

Capital Asset Contributions

Some capital assets may be acquired using federal and state grant funds, or they may be contributed by developers or other governments. Generally accepted accounting principles require that these contributions be accounted for as revenues at the time the capital assets are contributed.

Depreciation Allocation

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

<i>Governmental Activities</i>		<i>Business-type Activities</i>	
City Manager	\$ 22	Water	\$ 3,127
City Attorney	1	Electric	8,637
City Clerk	4	Fiber Optics	420
City Auditor	1	Gas	3,409
Administrative Services	4	Wastewater Collection	2,849
Public Works	10,530	Wastewater Treatment	4,143
Planning and Development Services	419	Refuse	81
Office of Transportation	9	Storm Drainage	871
Police	89	Airport	69
Fire	392		<u>\$ 23,606</u>
Community Services	3,297		
Library	2,368		
Internal Service Funds	3,153		
	<u>\$ 20,289</u>		

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

NOTE 6 – CAPITAL ASSETS (Continued)

Construction In Progress

Construction in progress as of June 30, 2021 is comprised of the following (in thousands):

Governmental Activities	Expended to June 30, 2021
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>
Business-type Activities	Expended to June 30, 2021
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
Governmental Activities Debt:						
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
Total Governmental Activities Debt	\$ 223,845	\$ 112,505	\$ 108,029	\$ 3,000	\$ 217,534	\$ 3,264
Business-type Activities Debt:						
Utility Revenue Bonds						
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	-
Energy Tax Credit Bonds						
2007 Series A, 0%, Due 12/15/2021	1,500	200	-	100	100	100
Less: Unamortized Discount	-	(11)	-	(5)	(6)	-
Total Bonds	71,475	40,728	-	4,106	36,622	4,215
State Water Resources Loans						
Direct Borrowings:						
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
Total Direct Borrowings	47,184	33,808	-	1,520	32,288	1,542
Total Business-type Activities Debt	\$ 118,659	\$ 74,536	\$ -	\$ 5,626	\$ 68,910	\$ 5,757

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

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

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 ¹	3% at 55	3% at 55	3% at 50	2.7% at 57
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50	55 ¹	55 ¹	57 ¹
Monthly benefit as % of eligible compensation	3%	3%	3%	2.7%
Actuarially determined contribution rate - EE	9%	9%	9%	11.25%
Actuarially determined contribution rate - ER	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 ²	2% at 60 ²	2% at 62 ³
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	55 ²	60 ²	62 ³
Monthly benefit as % of eligible compensation ²	2.70%	2.0% - 2.418%	2%
Actuarially determined contribution rate - EE	8%	7%	6.25%
Actuarially determined contribution rate - ER	38.367%	38.367%	38.367%

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

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

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

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

	Miscellaneous and Safety Plans
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 ¹	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.

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

All other actuarial assumptions used in the June 30, 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 ¹	Real Return Years 11+ ²
Global Equity	50.0%	4.80%	5.98%
Global Fixed Income	28.0	1.00	2.62
Inflation Sensitive	0.0	0.77	1.81
Private Equity	8.0	6.30	7.23
Real Estate	13.0	3.75	4.93
Liquidity	1.0	0.00	(0.92)

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

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

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
<u>Miscellaneous Plan:</u>			
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	35,331	20,223	15,108
Balances reported at June 30, 2021	884,335	594,063	290,272
<u>Safety Plan:</u>			
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	20,733	5,711	15,022
Balances reported at June 30, 2021	477,550	294,739	182,811
Total	\$ 1,361,885	\$ 888,802	\$ 473,083

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%)
Miscellaneous Plan:			
Plan's Net Pension Liability	\$ 401,532	\$ 290,272	\$ 197,747
Safety Plan:			
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
<u>Miscellaneous Plan:</u>	
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
<u>Safety Plan:</u>	
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 ¹	Dependent Coverage	Retired on or After	Retiree Contribution
Management & Professional ²	1/1/2004	100%	100%	5/1/2011	Flat rate ⁴
Police Management ²	1/1/2004	100%	100%	6/1/2012	Flat rate ⁴
Fire Fighters ²	1/1/2004	100%	100%	12/1/2011	Flat rate ⁴
Fire Chiefs Association ²	1/1/2004	100%	100%	1/1/2013	Flat rate ⁴
SEIU ²	1/1/2005	100%	100%	5/1/2011	Flat rate ⁴
Police Officers ³	1/1/2006	100%	100%	4/1/2015	Flat rate ⁴
Utilities Managers & Professional ²	1/1/2004	100%	100%	5/1/2011	10%

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

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

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

⁴ 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 ¹	Dependent Coverage ²
Management & Professional	1/1/2004	50%-100%	Max. 90%
Police Management	1/1/2004	50%-100%	Max. 90%
Fire Fighters	1/1/2004	50%-100%	Max. 90%
Fire Chiefs Association	1/1/2004	50%-100%	Max. 90%
Utilities Managers & Professional	1/1/2004	50%-100%	Max. 90%
SEIU	1/1/2005	50%-100%	Max. 90%
Police Officers	1/1/2006	50%-100%	Max. 90%

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

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 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><u>1,983</u></u>

Contributions – The City's OPEB funding policy is to contribute 100 percent or more of the actuarially determined contribution each year pursuant to City Council Resolution. For the year ended June 30, 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, 11th Floor, San Francisco, California 94111.

Claims Liability

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

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

	Year Ended June 30	
	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
Total pension liability							
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)
Net change in total pension liability	35,331	37,674	30,601	66,710	30,045	20,503	27,624
Total pension liability - beginning	849,004	811,330	780,729	714,019	683,974	663,471	635,847
Total pension liability - ending (a)	\$ 884,335	\$ 849,004	\$ 811,330	\$ 780,729	\$ 714,019	\$ 683,974	\$ 663,471
Plan fiduciary net position							
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	-	-	-
Net change in fiduciary net position	20,223	27,171	33,745	43,142	(8,000)	1,419	62,953
Plan fiduciary net position - beginning	573,840	546,669	512,924	469,782	477,782	476,363	413,410
Plan fiduciary net position - ending (b)	\$ 594,063	\$ 573,840	\$ 546,669	\$ 512,924	\$ 469,782	\$ 477,782	\$ 476,363
Plan net pension liability/(asset) - Ending (a) - (b)	\$ 290,272	\$ 275,164	\$ 264,661	\$ 267,805	\$ 244,237	\$ 206,192	\$ 187,108
Plan fiduciary net position as a percentage of total pension liability	67.18%	67.59%	67.38%	65.70%	65.79%	69.85%	71.80%
Covered payroll	\$ 81,017	\$ 82,573	\$ 80,634	\$ 77,606	\$ 73,722	\$ 69,837	\$ 66,373
Plan net pension liability/(asset) as a percentage of covered payroll	358.29%	333.24%	328.23%	345.08%	331.29%	295.25%	281.90%

Notes to Schedule:

Benefit changes - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 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)

Fiscal Year	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
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
Total pension liability							
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)
Net change in total pension liability	20,733	17,409	23,633	32,219	10,547	5,606	12,349
Total pension liability - beginning	456,817	439,408	415,775	383,556	373,009	367,403	355,054
Total pension liability - ending (a)	\$ 477,550	\$ 456,817	\$ 439,408	\$ 415,775	\$ 383,556	\$ 373,009	\$ 367,403
Plan fiduciary net position							
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)	-	-	-
Net change in fiduciary net position	5,711	8,855	11,705	17,994	(9,105)	(5,000)	30,426
Plan fiduciary net position - beginning	289,028	280,173	268,468	250,474	259,579	264,579	234,153
Plan fiduciary net position - ending (b)	\$ 294,739	\$ 289,028	\$ 280,173	\$ 268,468	\$ 250,474	\$ 259,579	\$ 264,579
Plan net pension liability/(asset) - Ending (a) - (b)	\$ 182,811	\$ 167,789	\$ 159,235	\$ 147,307	\$ 133,082	\$ 113,430	\$ 102,824
Plan fiduciary net position as a percentage of total pension liability	61.72%	63.27%	63.76%	64.57%	65.30%	69.59%	72.01%
Covered payroll	\$ 26,189	\$ 24,263	\$ 24,131	\$ 21,906	\$ 21,822	\$ 21,912	\$ 21,896
Plan net pension liability/(asset) as a percentage of covered payroll	698.04%	691.54%	659.88%	672.45%	609.85%	517.66%	469.60%

Notes to Schedule:

Benefit changes - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 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)

Fiscal Year	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
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)

Fiscal year	2020-21	2019-20	2018-19	2017-18
Measurement Period	2019-20	2018-19	2017-18	2016-17
Total OPEB liability				
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)
Net change in total OPEB liability	5,784	(10,121)	10,871	10,179
Total OPEB liability - beginning	245,509	255,630	244,759	234,580
Total OPEB liability - ending (a)	\$ 251,293	\$ 245,509	\$ 255,630	\$ 244,759
Plan fiduciary net position				
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)
Net change in fiduciary net position	8,016	10,669	16,560	11,407
Plan fiduciary net position - beginning	118,479	107,810	91,250	79,843
Plan fiduciary net position - ending (b)	\$ 126,495	\$ 118,479	\$ 107,810	\$ 91,250
Plan net OPEB liability/(asset) - Ending (a) - (b)	\$ 124,798	\$ 127,030	\$ 147,820	\$ 153,509
Plan fiduciary net position as a percentage of total OPEB liability	50.34%	48.26%	42.17%	37.28%
Covered employee payroll	\$ 125,676	\$ 118,014	\$ 119,090	\$ 118,774
Plan net OPEB liability/(asset) as a percentage of covered employee payroll	99.30%	107.64%	124.12%	129.24%

Notes to Schedule:

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

Changes in assumptions - During measurement period 2020, demographic assumptions were change in accordance to the 2017 CalPERS Experience Study while mortality improvement scale was updated to Scale MP-2019.

* 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)

Fiscal Year	2020-21	2019-20	2018-19	2017-18	2016-17
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
ASSETS:				
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>
LIABILITIES AND FUND BALANCES:				
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
ASSETS:				
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>
LIABILITIES AND FUND BALANCES:				
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
REVENUES:				
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				
EXPENDITURES:				
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				
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,790</u>	<u>72</u>	<u>5,644</u>	<u>(3,116)</u>
OTHER FINANCING SOURCES (USES):				
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)
FUND BALANCES, BEGINNING OF YEAR	<u>75</u>	<u>5,221</u>	<u>53,510</u>	<u>6,819</u>
FUND BALANCES, END OF YEAR	<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)	-
<u>\$ (2,345)</u>	<u>(1,728)</u>	<u>\$ 617</u>	<u>\$ (63)</u>	<u>(15)</u>	<u>\$ 48</u>	<u>\$ (1,580)</u>	<u>(1,626)</u>	<u>\$ (46)</u>
	(213)			-			(249)	
	-			-			-	
	-			-			-	
	(1,941)			(15)			(1,875)	
	15,456			66			20,446	
<u>\$ 13,515</u>			<u>\$ 51</u>			<u>\$ 18,571</u>		

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NON-MAJOR GOVERNMENTAL FUNDS**DEBT SERVICE FUNDS****2018 Golf Course Capital Improvement**

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

2019 California Avenue Parking Garage COPs

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

Library Projects

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

Public Safety Building

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

CITY OF PALO ALTO
Non-major Debt Service Funds
Combining Balance Sheet
June 30, 2021
(Amounts in thousands)

	2018 Golf Course Capital Improvement	2019 California Avenue Parking Garage COPs	Library Projects	Public Safety Building	Total Debt Service Funds
ASSETS:					
Cash and investments available for operations	\$ 1	\$ 5	\$ 3,722	\$ -	\$ 3,728
Receivables:					
Accounts and intergovernmental	-	-	2	-	2
Interest	-	-	19	-	19
Restricted cash and investments with fiscal agents	18	16	-	4,621	4,655
Total assets	<u>\$ 19</u>	<u>\$ 21</u>	<u>\$ 3,743</u>	<u>\$ 4,621</u>	<u>\$ 8,404</u>
FUND BALANCES:					
Restricted:					
Debt service	<u>\$ 19</u>	<u>\$ 21</u>	<u>\$ 3,743</u>	<u>\$ 4,621</u>	<u>\$ 8,404</u>

CITY OF PALO ALTO
Non-major Debt Service Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2021
(Amounts in thousands)

	2018 Golf Course Capital Improvement	2019 California Avenue Parking Garage COPs	Library Projects	Public Safety Building	Total Debt Service Funds
REVENUES:					
Property tax	\$ -	\$ -	\$ 4,329	\$ -	\$ 4,329
Investment earnings	-	-	(10)	-	(10)
Total revenues	-	-	4,319	-	4,319
EXPENDITURES:					
Debt service:					
Principal retirement	185	630	1,780	-	2,595
Interest and fiscal charges	345	1,748	2,646	1,408	6,147
Total expenditures	530	2,378	4,426	1,408	8,742
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(530)	(2,378)	(107)	(1,408)	(4,423)
OTHER FINANCING SOURCES (USES):					
Issuance of debt	-	-	-	6,029	6,029
Transfers in	530	2,380	-	-	2,910
Total other financing sources (uses)	530	2,380	-	6,029	8,939
Change in fund balances	-	2	(107)	4,621	4,516
FUND BALANCES, BEGINNING OF YEAR	19	19	3,850	-	3,888
FUND BALANCES, END OF YEAR	\$ 19	\$ 21	\$ 3,743	\$ 4,621	\$ 8,404

CITY OF PALO ALTO
Non-major Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2021
(Amounts in thousands)

	2018 Golf Course Capital Improvement			2019 California Avenue Parking Garage COPs			Library Projects			Public Safety Building		
	Actual, Budgetary			Actual, Budgetary			Actual, Budgetary			Actual, Budgetary		
	Budget	Basis	Variance	Budget	Basis	Variance	Budget	Basis	Variance	Budget	Basis	Variance
REVENUES:												
Property tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,559	\$ 4,329	\$ (230)	\$ -	\$ -	\$ -
Investment earnings	-	-	-	-	-	-	29	32	3	-	-	-
Total revenues	-	-	-	-	-	-	4,588	4,361	(227)	-	-	-
EXPENDITURES:												
Debt service:												
Principal retirement	185	185	-	630	630	-	1,780	1,780	-	-	-	-
Interest and fiscal charges	345	345	-	1,750	1,748	2	2,646	2,646	-	1,408	1,408	-
Total expenditures	530	530	-	2,380	2,378	2	4,426	4,426	-	1,408	1,408	-
Excess (deficiency) of revenues over (under) expenditures	(530)	(530)	-	(2,380)	(2,378)	2	162	(65)	(227)	(1,408)	(1,408)	-
OTHER FINANCING SOURCES (USES):												
Issuance of debt	-	-	-	-	-	-	-	-	-	6,029	6,029	-
Transfers in	530	530	-	2,380	2,380	-	-	-	-	-	-	-
Total other financing sources (uses)	530	530	-	2,380	2,380	-	-	-	-	6,029	6,029	-
Change in fund balances, budgetary basis	\$ -	-	\$ -	\$ -	2	\$ 2	\$ 162	(65)	\$ (227)	\$ 4,621	4,621	\$ -
Adjustment to Budgetary Basis:												
Unrealized gain (loss) on investments		-			-			(42)			-	
CHANGE IN FUND BALANCE, GAAP BASIS		-			2			(107)			4,621	
FUND BALANCES, BEGINNING OF YEAR		19			19			3,850			-	
FUND BALANCES, END OF YEAR		\$ 19			\$ 21			\$ 3,743			\$ 4,621	

NON-MAJOR GOVERNMENTAL FUNDS**PERMANENT FUND****Eyerly Family**

This fund accounts for the revenues received from assets donated by Mr. and Mrs. Fred Eyerly for the City and or its citizenry.

CITY OF PALO ALTO
Non-major Permanent Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual
For the Year Ended June 30, 2021
(Amounts in thousands)

	Eyerly Family Permanent Fund		
	Budget	Actual, Budgetary Basis	Variance Positive (Negative)
REVENUES:			
Investment earnings	\$ 42	\$ 44	\$ 2
Change in fund balance	<u>\$ 42</u>	<u>44</u>	<u>\$ 2</u>
Adjustment to Budgetary Basis:			
Unrealized gain (loss) on investments		<u>(28)</u>	
CHANGE IN FUND BALANCE, GAAP BASIS		16	
FUND BALANCE, BEGINNING OF YEAR		<u>2,540</u>	
FUND BALANCE, END OF YEAR		<u>\$ 2,556</u>	

INTERNAL SERVICE FUNDS

INTRODUCTION

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

Vehicle Replacement and Maintenance

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

Technology

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

Printing and Mailing Services

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

General Benefits

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

Workers' Compensation Insurance Program

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

General Liabilities Insurance Program

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

Retiree Health Benefits

This fund accounts for the retiree health benefits contributions.

CITY OF PALO ALTO
Internal Service Funds
Combining Statement of Fund Net Position
June 30, 2021
(Amounts in thousands)

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
ASSETS:								
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
DEFERRED OUTFLOWS OF RESOURCES:								
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
LIABILITIES:								
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
DEFERRED INFLOWS OF RESOURCES:								
OPEB related	288	587	11	-	11	-	-	897
NET POSITION:								
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
OPERATING REVENUES:								
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
OPERATING EXPENSES:								
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
NONOPERATING REVENUES (EXPENSES):								
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
ASSETS:			
Cash and investments available for operations (Note 3)	\$ 1,207	\$ 2,069	\$ 3,276
Accounts receivable	459	32	491
Interest receivable	5	11	16
Restricted cash and investments with fiscal agents (Note 3)	-	2,705	2,705
Total assets	1,671	4,817	6,488
LIABILITIES:			
Accounts payable and accruals	411	-	411
NET POSITION:			
Restricted for:			
Governmental entities	1,260	-	1,260
Bondholders of special assessment bonds	-	4,817	4,817
Total net position	\$ 1,260	\$ 4,817	\$ 6,077

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

	Cable Joint Powers Authority	University Avenue Area Off-Street Parking Assessment District	Total
ADDITIONS:			
Franchise and other fees collected	\$ 1,821	\$ -	\$ 1,821
Special assessments collected	-	2,407	2,407
Investment earnings	14	(5)	9
Other	-	5	5
Total additions	<u>1,835</u>	<u>2,407</u>	<u>4,242</u>
DEDUCTIONS:			
Administrative and general	34	5	39
Distribution to governmental entities	1,538	-	1,538
Debt services payments	-	2,409	2,409
Total deductions	<u>1,572</u>	<u>2,414</u>	<u>3,986</u>
Changes in net position	263	(7)	256
NET POSITION, BEGINNING OF YEAR	<u>997</u>	<u>4,824</u>	<u>5,821</u>
NET POSITION, END OF YEAR	<u>\$ 1,260</u>	<u>\$ 4,817</u>	<u>\$ 6,077</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

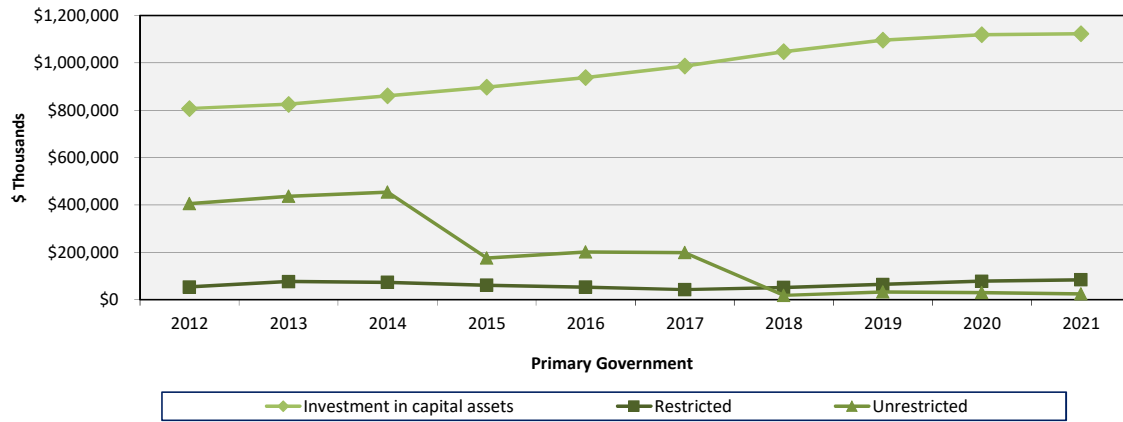
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

- 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
<u>Governmental Activities</u>										
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)
Total Governmental Activities Net Position	\$ 565,147	\$ 615,574	\$ 642,413	\$ 463,856	\$ 510,991	\$ 527,289	\$ 427,370	\$ 449,983	\$ 440,574	\$ 423,137
<u>Business-type Activities</u>										
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
Total Business-type Activities Net Position	\$ 699,753	\$ 720,583	\$ 744,755	\$ 667,818	\$ 679,839	\$ 699,294	\$ 688,131	\$ 741,543	\$ 785,006	\$ 807,219
<u>Primary Government</u>										
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
Total Primary Government Net Position	\$ 1,264,900	\$ 1,336,157	\$ 1,387,168	\$ 1,131,674	\$ 1,190,830	\$ 1,226,583	\$ 1,115,501	\$ 1,191,526	\$ 1,225,580	\$ 1,230,356

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
PROGRAM REVENUES										
<u>Governmental Activities</u>										
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 ^{1&2}	-	-	-	12,019	12,570	11,768	16,000	13,904	-	-
Planning & Development Services ²	-	-	-	-	-	-	-	-	16,173	21,228
Office of Transportation ³	-	-	-	-	-	-	-	-	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
Total Governmental Activities										
Program Revenues	<u>67,274</u>	<u>81,398</u>	<u>60,271</u>	<u>69,472</u>	<u>69,886</u>	<u>61,155</u>	<u>78,961</u>	<u>81,257</u>	<u>68,725</u>	<u>69,829</u>
<u>Business-type Activities</u>										
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
Total Business-type Activities										
Program Revenues	<u>271,599</u>	<u>275,603</u>	<u>275,522</u>	<u>273,523</u>	<u>274,689</u>	<u>309,276</u>	<u>344,862</u>	<u>354,540</u>	<u>359,872</u>	<u>353,373</u>
Total Primary Government										
Program Revenues	<u>\$ 338,873</u>	<u>\$ 357,001</u>	<u>\$ 335,793</u>	<u>\$ 342,995</u>	<u>\$ 344,575</u>	<u>\$ 370,431</u>	<u>\$ 423,823</u>	<u>\$ 435,797</u>	<u>\$ 428,597</u>	<u>\$ 423,202</u>
EXPENSES										
<u>Governmental Activities</u>										
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 ²	12,074	13,549	14,926	8,423	10,208	10,918	11,357	12,169	-	-
Development Services ^{1&2}	-	-	-	10,449	11,158	11,102	12,664	12,622	-	-
Planning & Development Services ²	-	-	-	-	-	-	-	-	21,725	18,141
Office of Transportation ³	-	-	-	-	-	-	-	-	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
Total Governmental										
Activities Expenses	<u>137,547</u>	<u>139,204</u>	<u>155,561</u>	<u>151,345</u>	<u>164,899</u>	<u>183,240</u>	<u>211,132</u>	<u>234,407</u>	<u>242,913</u>	<u>234,795</u>
<u>Business-type Activities</u>										
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
Total Business-type										
Activities Expenses	<u>232,183</u>	<u>232,770</u>	<u>239,903</u>	<u>249,967</u>	<u>251,245</u>	<u>271,028</u>	<u>297,294</u>	<u>295,128</u>	<u>307,657</u>	<u>314,260</u>
Total Primary										
Government Expenses	<u>\$ 369,730</u>	<u>\$ 371,974</u>	<u>\$ 395,464</u>	<u>\$ 401,312</u>	<u>\$ 416,144</u>	<u>\$ 454,268</u>	<u>\$ 508,426</u>	<u>\$ 529,535</u>	<u>\$ 550,570</u>	<u>\$ 549,055</u>

Fiscal Year Ended June 30										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
NET (EXPENSE)/REVENUE										
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
Total Primary Government										
Net (Expense)/Revenue	<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>
GENERAL REVENUES AND OTHER CHANGES IN NET POSITION										
<u>Governmental Activities</u>										
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
Total Governmental Activities	<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>
<u>Business-type Activities</u>										
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)
Total Business-type Activities	<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>
Total Primary Government	<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>
CHANGE IN NET POSITION										
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
Total Primary Government										
Change in Net Position	<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>

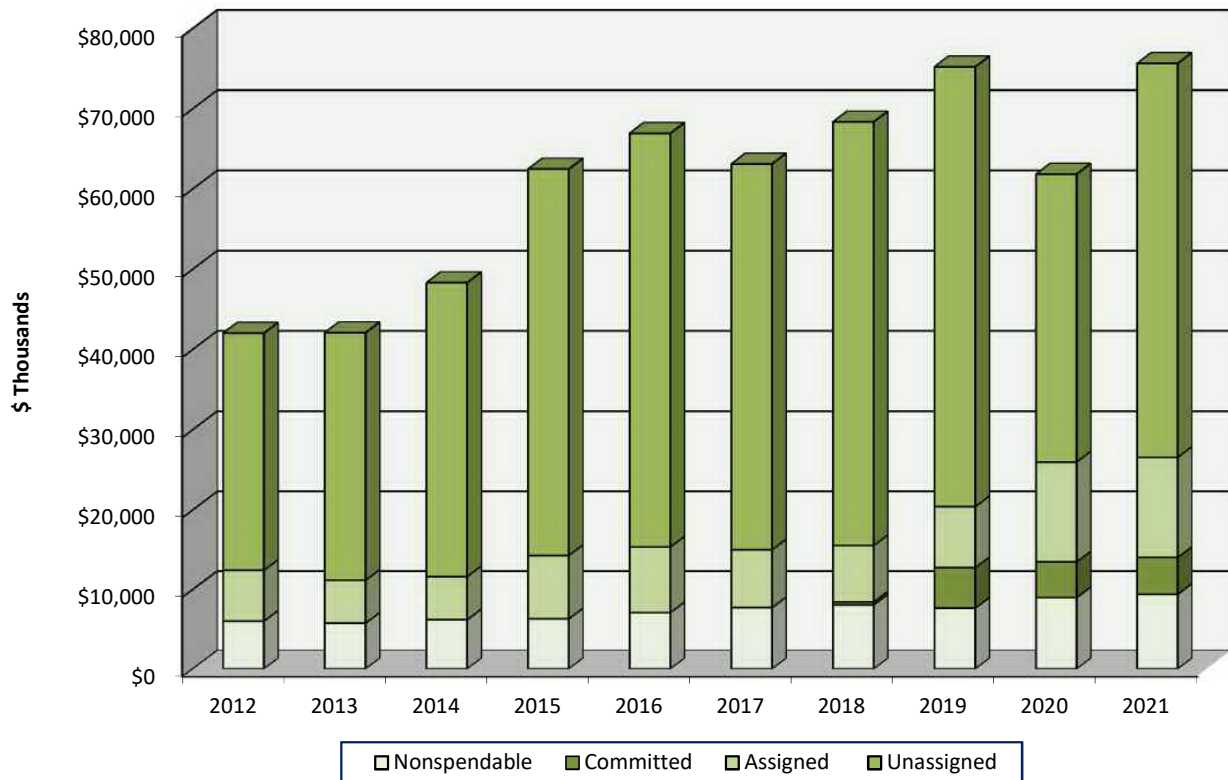
Notes:

¹The Development Services Department was formed in FY15.²In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.³In FY20, the City established the Office of Transportation.

Source:

Annual Financial Statements, Statement of Activities

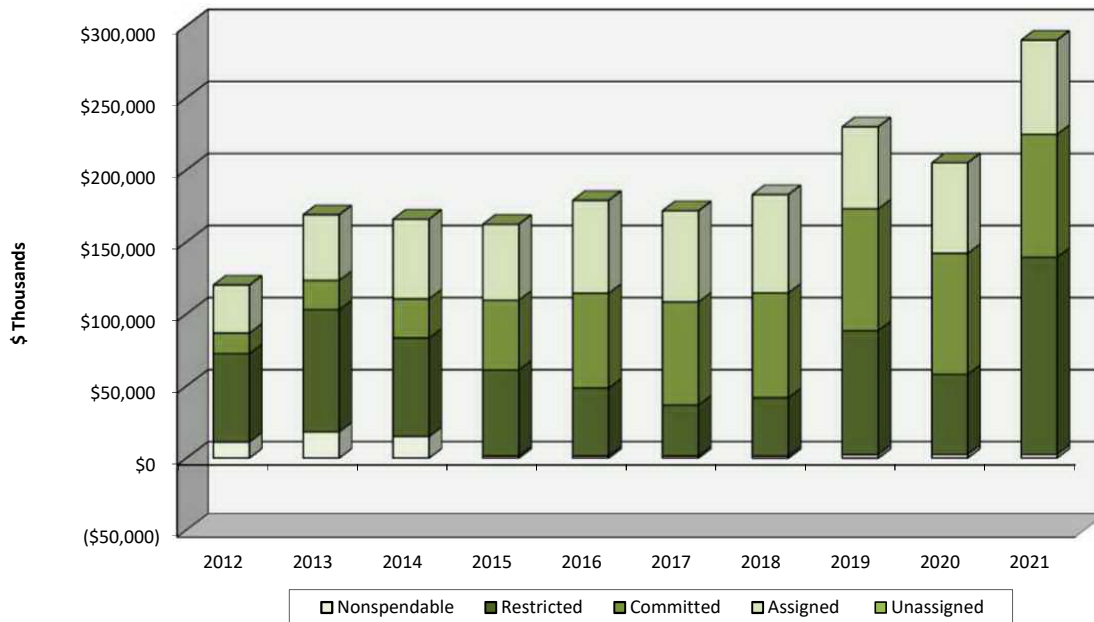
CITY OF PALO ALTO
Fund Balances of Governmental Funds (General Fund)
Last Ten Fiscal Years
(Modified accrual basis of accounting)
(Amounts in thousands)



	Fiscal Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
General Fund										
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
Total General Fund	\$ 42,023	\$ 42,077	\$ 48,310	\$ 62,470	\$ 66,931	\$ 63,107	\$ 68,346	\$ 75,215	\$ 61,839	\$ 75,636

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
All Other Governmental Funds										
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)	-	-
Total All Other Governmental Funds	<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
Revenues										
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 ⁵	-	-	-	-	-	-	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
Total Revenues	167,426	170,796	164,690	184,461	191,867	181,414	211,271	232,463	208,720	194,938
Expenditures										
Administration ¹	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 ³	11,966	13,474	14,761	8,628	9,722	10,568	10,332	10,911	-	-
Development Services ^{2,3}	-	-	-	11,152	10,643	10,908	11,749	11,549	-	-
Planning and Development Services ²	-	-	-	-	-	-	-	-	20,170	17,115
Office of Transportation ⁴	-	-	-	-	-	-	-	-	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	-	-	-	-	-	-	-	-
Total Expenditures	164,091	160,151	179,063	189,128	186,154	205,985	219,562	234,918	260,859	222,144
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,335	10,645	(14,373)	(4,667)	5,713	(24,571)	(8,291)	(2,455)	(52,139)	(27,206)
Other Financing Sources (Uses)										
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)	-	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	17,536	38,216	17,508	15,313	15,343	13,561	24,767	56,303	13,845	126,123
Net Change in Fund Balances	\$ 20,871	\$ 48,861	\$ 3,135	\$ 10,646	\$ 21,056	\$ (11,010)	\$ 16,476	\$ 53,848	\$ (38,294)	\$ 98,917
Debt Service as a Percentage of Non-Capital Expenditures										
	3.3%	2.6%	2.6%	2.8%	6.1%	2.5%	2.7%	2.3%	2.8%	4.6%

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

² The Development Services Department was formed in FY15.

³ In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.

⁴ In FY20, the City established the Office of Transportation.

⁵ Represents contributions from the Stanford University Medical Center in FY18.

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

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

Fiscal Year	Residential	Commercial & Industrial	City of Palo Alto	Total
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 Revenue¹

Customer (alphabetical order)	Type of Business
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

¹The 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.

	Average Installations Billed¹	Kilowatt-hour Sales (kWh)	Revenue
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
Total	28,878	813,884,681	\$ 129,468

¹Values 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

Source	Capacity Available (MW)	Actual Energy (GWh)	Percent of Total Energy
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 ¹	827	100%

Notes: ¹Capacity 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)

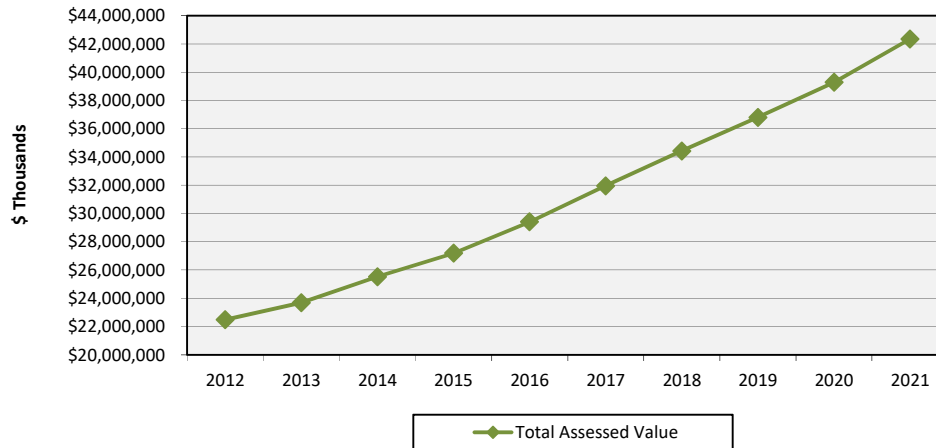
City of Palo Alto
Genencor International
Lucille Packard Children's Hospital
Palo Alto Unified School District
Space Systems/Loral, LLC
Stanford Health Care
Stanford Hospital & Clinics
Stanford University
Veterans Administration Hospital
VMWare, Inc.

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)

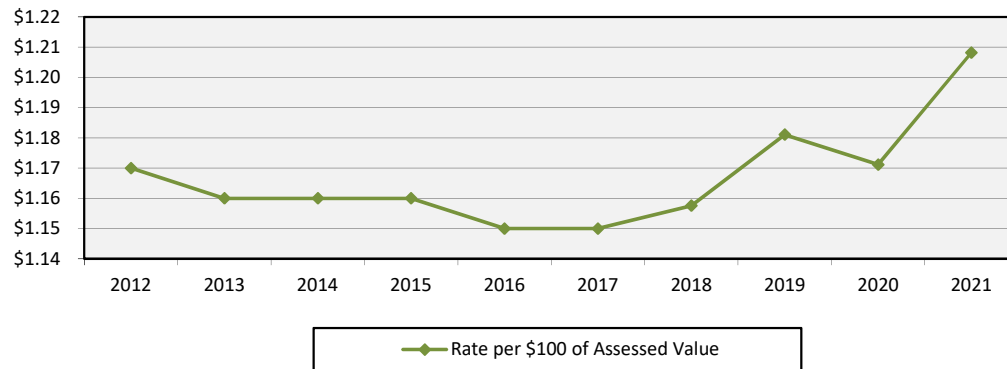


	Fiscal Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net Local Secured Roll										
Land	\$ 11,352,993	\$ 12,255,515	\$ 13,357,851	\$ 14,409,837	\$ 15,718,665	\$ 17,333,969	\$ 18,770,642	\$ 20,386,904	\$ 22,186,582	\$ 24,028,178
Improvements	11,703,597	12,381,306	12,984,735	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
Less:										
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)
Total Net Local Secured Roll	20,967,298	22,334,464	24,039,564	25,572,918	27,618,260	30,148,340	32,509,996	34,891,628	37,331,776	40,152,307
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
Total Assessed Value	\$ 22,486,708	\$ 23,693,007	\$ 25,536,059	\$ 27,198,127	\$ 29,415,754	\$ 31,954,381	\$ 34,434,739	\$ 36,801,413	\$ 39,285,460	\$ 42,353,926
Total Direct Tax Rate										
	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%

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

Source: County of Santa Clara Assessor's Office

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



Fiscal Year	Basic County Wide Levy	County Retirement Levy	County Hospital G.O. Bond (Measure A)	City Library G.O. Bond (Measure N)	Santa Clara Valley Water District	School District	Community College	Midpeninsula Open Space ¹	County Affordable Housing Bond (Measure A) ²	Total Direct and Overlapping Rates
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: ¹The Midpeninsula Regional Open Space District Bond Issue and Property Tax, Measure AA, passed in 2014. Rates were first levied for the 2015-16 fiscal year.

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

Source: County of Santa Clara, Tax Rates and Information

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

Fiscal Year Ended June 30	Total Tax Levy for FY ¹	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years ²	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
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: ¹During fiscal year 1995, the County of Santa Clara began providing the City 100% of its tax levy under an agreement which allows the County to keep all interest and delinquency charges collected.

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

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

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

Taxpayer	Fiscal Year 2021			Fiscal Year 2012		
	Taxable Assessed	Rank	Percentage of Total Taxable	Taxable Assessed	Rank	Percentage of Total Taxable
	Value		Assessed Value	Value		Assessed Value
Leland Stanford Jr. University	\$ 6,529,897	1	15.4%	\$ 3,035,075	1	13.5%
Google Inc.	303,697	2	0.7%			
ARE-San Francisco 80 LLC	291,000	3	0.7%			
SVF Sherman Palo Alto Corporation	143,575	4	0.3%			
ARE-San Francisco 69 LLC	141,494	5	0.3%			
395 Page Mill LLC	123,083	6	0.3%			
530 Lytton Owner LLC	119,850	7	0.3%			
Hohbach Realty Co. LP	110,392	8	0.3%			
SI 45 LLC	84,423	9	0.2%			
PA Hotel Holdings LLC	82,600	10	0.2%			
Space Systems/Loral, Inc.				226,246	2	1.0%
Arden Realty Limited Partnership				112,472	3	0.5%
Whisman Ventures, LLC				105,066	4	0.5%
ECI 2 Bayshore LLC/ECI Hamilton LLC				73,901	5	0.3%
Ronald & Ann Williams Charitable Foundation				58,804	6	0.3%
Blackhawk Parent LLC				50,196	7	0.2%
300 / 400 Hamilton Associates				41,433	8	0.2%
Thoit Bros., Inc.				31,740	9	0.1%
529 Bryant St.				31,737	10	0.1%
Total	<u>\$ 7,930,011</u>		<u>18.7%</u>	<u>\$ 3,766,670</u>		<u>16.7%</u>

Total City Taxable Assessed Value:

FY 2021	\$ 42,353,926
FY 2012	\$ 22,486,708

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Assessed Valuation and Parcels by Land Use
As of June 30, 2021

	2020-2021				No. of	
	Assessed	% of	No. of	% of	Taxable	% of
	Valuation¹	Total	Parcels	Total	Parcels	Total
Non-Residential:						
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
Residential:						
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
Vacant Parcels	<u>378,215,314</u>	<u>0.94</u>	<u>365</u>	<u>1.75</u>	<u>151</u>	<u>0.74</u>
Total	<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.

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

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Per Parcel Assessed Valuation of Single Family Residential
As of June 30, 2021

	No. of Taxable Parcels¹	2020-2021 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	15,024	\$23,266,022,527	\$1,548,590	\$1,096,758

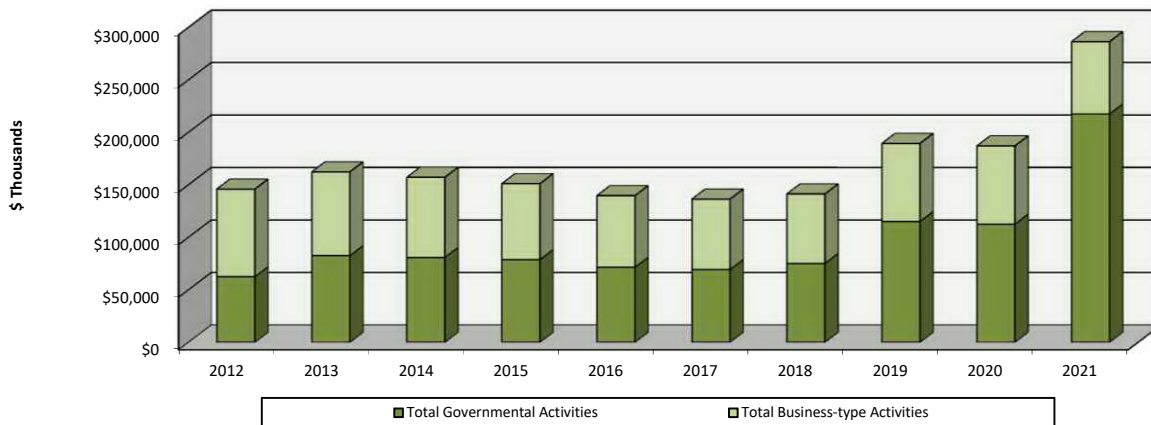
2020-2021 Assessed Valuation	No. of Taxable Parcels¹	% of Total Parcels	Cumulative % of Total Parcels	Total Valuation	% of Total Valuation	Cumulative % of Total Valuation
\$0-99,999	774	5.15 %	5.15 %	\$ 62,751,790	0.27 %	0.27 %
\$100,000-199,999	1,627	10.83	15.98	226,741,966	0.97	1.24
\$200,000-299,999	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.

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

Source: California Municipal Statistics, Inc.

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



	Fiscal Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Governmental Activities										
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
Total Governmental Activities	62,503	82,595	80,913	78,807	71,519	69,295	75,146	115,136	112,505	217,534
Business-type Activities										
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
Total Business-type Activities	83,359	79,656	76,200	72,227	68,113	67,032	66,119	74,248	74,536	68,910
Total Primary Government Outstanding Debt	\$ 145,862	\$ 162,251	\$ 157,113	\$ 151,034	\$ 139,632	\$ 136,327	\$ 141,265	\$ 189,384	\$ 187,041	\$ 286,444
Percentage of Personal Income ¹	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: ¹See the schedule of Demographic and Economic Statistics for personal income data. Per capita personal income is only available for Santa Clara County, therefore personal income is the product of the countywide per capita amount and the City's population.

Sources: County of Santa Clara (assessed valuation)
 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

	Total Debt	Percentage	Amount
	Outstanding	Applicable	Applicable
		to City of	to City of
<u>Direct and Overlapping Tax and Assessment Debt</u>		Palo Alto¹	Palo Alto
Santa Clara County	\$ 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
Total Direct and Overlapping Tax and Assessment Debt			<u>531,996,444</u>
<u>Direct and Overlapping General Fund Debt</u>			
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
Total Gross Direct and Overlapping General Fund Debt			\$ 261,582,659
Less: Santa Clara County supported obligations			<u>1,943,066</u>
Total Net Direct and Overlapping General Fund Debt			\$ 259,639,593
Total Combined Debt			<u>\$ 791,636,037</u>
	Ratio to		
	Assessed Value		
Total Direct Debt	0.51%		\$ 217,534,000 ³
Total Overlapping Debt	1.39%		<u>588,201,037</u>
Total Direct and Overlapping Debt	1.90%		<u>\$ 805,735,037</u> ²

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

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

³Includes unamortized premium of \$14,099,000.

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Computation of Legal Bonded Debt Margin
As of June 30, 2021
(Amounts in thousands)

Assessed Valuation:	
Secured property assessed value, net of exempt real property	\$ 42,353,926
Bonded Debt Limit (3.75% of Assessed Value) ¹	<u>1,588,272</u>
Direct Debt:	
Certificates of Participation	146,440
General Obligation bonds	<u>56,995</u>
Total Direct Debt³	203,435
Less: Amount of Debt Not Subject to Limit ²	<u>146,440</u>
Total Net Debt Applicable to Limit	<u>56,995</u>
Legal Bonded Debt Margin	<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

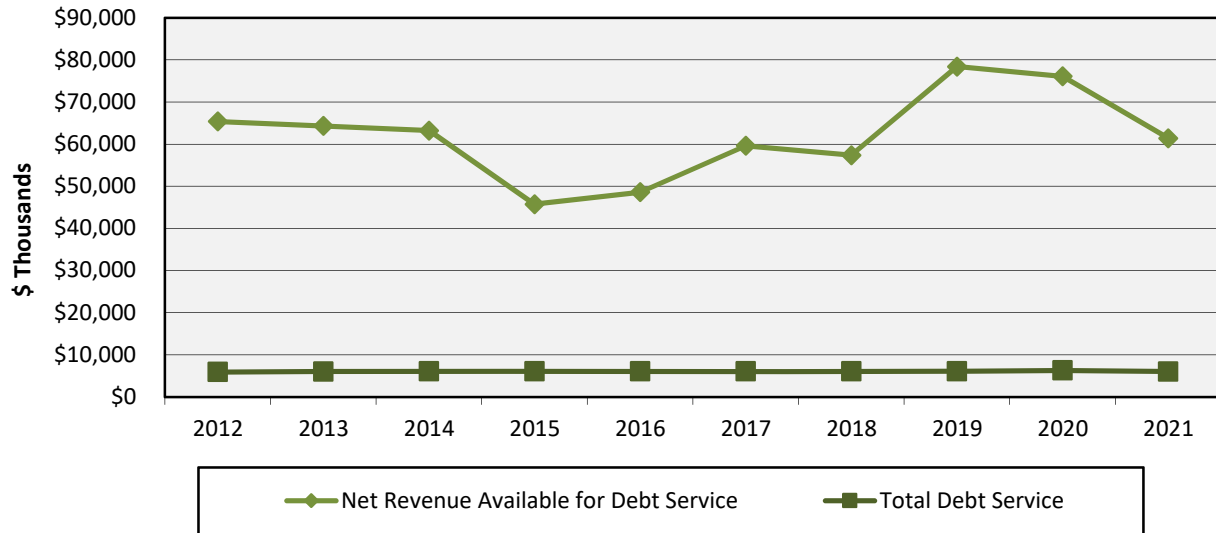
Notes: ¹California Government Code, Section 43605 sets the debt limit at 15% of the assessed value of all real and personal property of the City. Because this Code section was enacted when assessed value was 25% of market value, the limit is calculated at one-fourth, or 3.75%. This legal debt margin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

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

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

Source: Annual Financial Statements, Assessed Value of Taxable Property and Note 7 Long-Term Debt

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



Fiscal Year	Gross Revenue	Less: Direct Operating Expenses ²	Net Revenue Available for Debt Service	Debt Service			Coverage Ratio
				Principal	Interest ³	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: ¹ Airport, Refuse and Fiber Optics funds have no debt and are therefore excluded from this schedule.

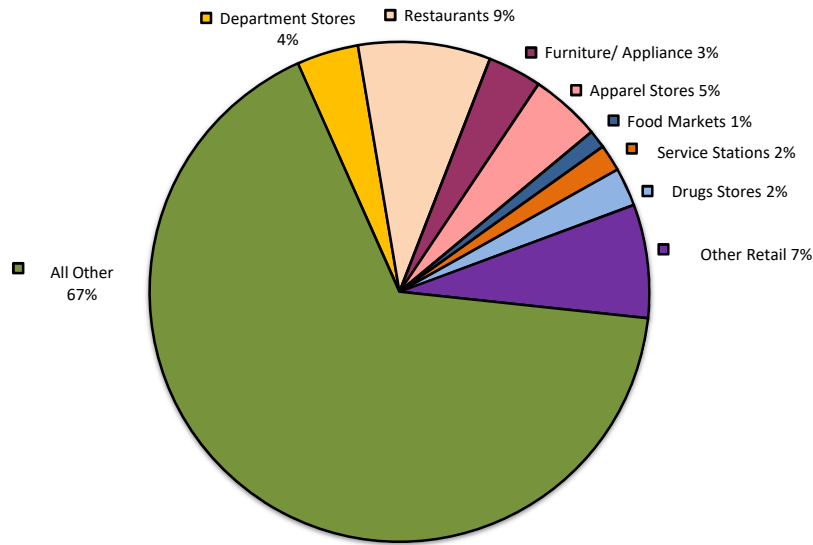
² Excludes depreciation and amortization expense.

³ Excludes joint venture debt service and federal interest subsidy.

Source: City of Palo Alto, Accounting Department

CITY OF PALO ALTO
Taxable Transactions by Type of Business
Last Ten Fiscal Years
(Amounts in thousands)

Fiscal Year 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 ¹	1,260	3,488	1,421	1,391	417	572	1,413	1,597	18,313	29,872
2021 ¹	1,125	2,410	980	1,283	332	489	700	2,062	18,744	28,125

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:

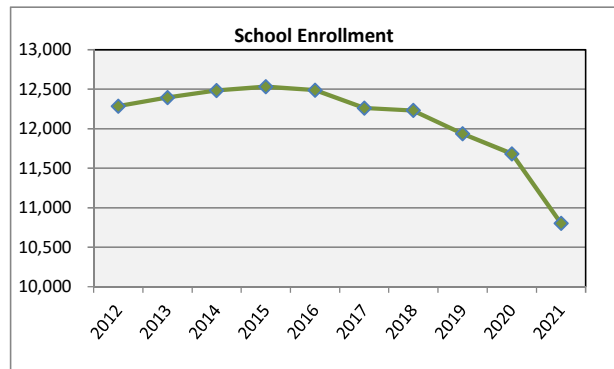
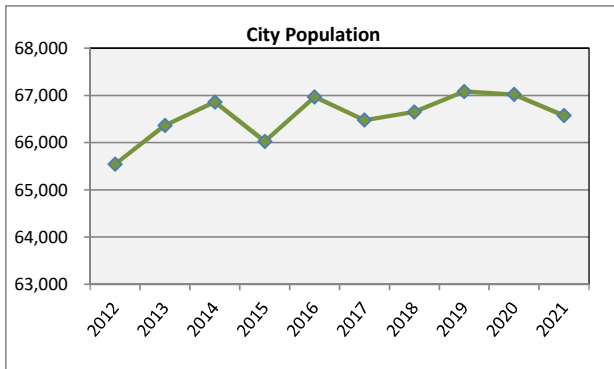
Santa Clara County Transit District (SCCT) 0.50%
 Santa Clara County Valley Transportation Authority (SCVT) 0.50%
 Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax (SVTB) 0.125%
 Santa Clara Retail Transactions and Use Tax (SCCR) 0.125%
 Silicon Valley Transportation Solutions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

Total Sales and Use Tax Rate: 9.000%

Notes: ¹Decrease 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

Employer	FY 2021¹			FY 2012		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Stanford Health Care ²	5,500	1	4.1%	5,059	2	4.6%
Hewlett-Packard Company ²	5,000	2	3.7%	2,201	5	2.0%
Stanford University ²	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 ²	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%
Total	37,110		27.6%	34,289		31.2%

Estimated Total City Day Population:

FY 2021	134,582
FY 2012	110,000

Notes: ¹Available 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.
²FY21 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 Years¹

FUNCTIONS/PROGRAMS	Fiscal Year Ended June 30			
	2011	2012	2013	2014
<u>Governmental activities</u>				
Community Services				
Number of theater performances	175	175	184	108
Total hours of athletic field usage ²	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
Planning and Community Environment				
Planning applications completed	238	204	307	310
Building permits issued	3,559	3,320	3,682	3,624
Caltrain average weekday boarding ³	4,923	5,730	6,763	7,564
Police				
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
Animal Services				
Number of service calls	2,804	3,051	2,909	2,398
Number of animals handled	3,323	3,379	2,675	2,480
Fire				
Calls for service	7,555	7,796	7,904	7,829
Number of fire incidents	165	186	150	150
Number of fire inspections ⁴	1,807	1,654	2,069	1,741
Library				
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
Public Works				
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
<u>Business-type activities</u>				
Electric				
Number of customer accounts	29,708	29,545	29,299	29,338
Residential MWH consumed	160,318	160,604	156,411	153,190
Gas				
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
Water				
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
Wastewater collection				
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: ¹Ten most recent years available.

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

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

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

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

Fiscal Year Ended June 30					
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
Public Safety					
Fire:					
Fire Stations Operated	7	7	7	7	7
Police:					
Police Stations	1	1	1	1	1
Police Patrol Vehicles	30	30	30	30	30
Community Services					
Acres - Downtown/Urban Parks ²	157	157	157	157	-
Acres - Open Space ²	3,744	3,744	3,744	3,752	-
Acres - Parks and Preserves ²	-	-	-	-	3,921
Acres - Open Space ²	-	-	-	-	4,489
Acres - Municipal Golf Course ²	-	-	-	-	-
Parks and Preserves ³	36	36	36	36	36
Golf Course (see above for acreage)	1	1	1	1	1
Tennis Courts	51	51	51	51	51
Athletic Center	4	4	4	4	4
Community Centers	4	4	4	4	4
Theaters	3	3	3	3	3
Cultural Center/Art Center	1	1	1	1	1
Junior Museum and Zoo	1	1	1	1	1
Swimming Pools	1	1	1	1	1
Nature Center	3	3	3	3	3
Libraries					
Libraries	5	5	5	5	5
Public Works:					
Number of Trees Maintained	31,890	31,923	31,757	31,652	31,699
Electric Utility¹					
Miles of Overhead Lines	223	222	223	223	222
Miles of Underground Lines	245	246	249	262	268
Water Utility					
Miles of Water Mains	234	233	236	236	235
Gas Utility					
Miles of Gas Mains	210	210	214	211	209
Waste Water					
Miles of Sanitary Sewer Lines	217	217	217	217	216

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

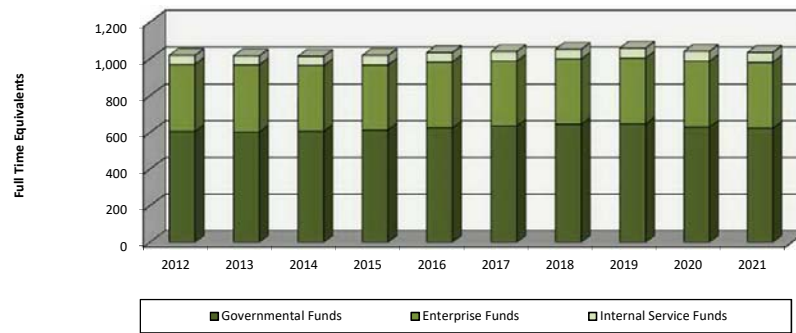
²Beginning in 2016 park acreage is sourced from the Official City Data Set. The discrepancy between FY16 and FY17 is because FY16 numbers were derived off GIS parcels identified as parks or zoned in the Open Space Zoning District. For FY17, Council approved Parks Master Plan numbers were used.

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

Source: City of Palo Alto

Fiscal Year Ended June 30				
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
Governmental Funds										
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 ⁵	-	-	-	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 ⁴	-	-	3	3	3	3	3	3	3	3
Planning and Community Environment ⁵	43	48	49	28	31	32	30	30	-	-
Planning and Development Services ⁵	-	-	-	-	-	-	-	-	62	62
Office of Transportation ⁶	-	-	-	-	-	-	-	-	6	6
Police	157	154	155	155	155	155	155	155	149	149
Public Works ¹	56	57	56	53	54	56	55	51	49	51
Subtotal General Fund	576	578	578	588	599	604	604	586	576	576
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
Total Governmental Funds	602	606	614	625	636	645	647	629	623	623
Enterprise Funds										
Public Works ²	115	104	99	100	95	99	101	101	101	101
Utilities ³	251	254	255	258	256	255	257	257	257	257
Total Enterprise Funds	366	358	354	358	351	354	358	358	358	358
Internal Service Funds										
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
Total Internal Service Funds	48	50	51	51	53	53	54	54	54	54
Total	1,016	1,014	1,019	1,034	1,040	1,052	1,059	1,041	1,035	1,035

Notes: ¹Fleet and Facilities Management

²Refuse, Storm Drainage, Wastewater Treatment

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

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

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

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

Numbers adjusted for rounding purposes.

Source: City of Palo Alto - Fiscal Year 2021 Adopted Operating Budget

Americans with Disabilities Act Statement



IN COMPLIANCE WITH
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For information contact:

ADA Coordinator
City of Palo Alto
250 Hamilton Ave
(650) 329-2550
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,
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FINANCE COMMITTEE ACTION MINUTES

Special Meeting
November 30, 2021

The Finance Committee of the City of Palo Alto met on this date in virtual teleconference at 6:00 P.M.

Present: Burt, Cormack, Filseth

Absent:

Agenda Items

1. Discussion and Recommendation to the City Council Accept the Macias Gini & O'Connell's (MGO) Audit of the City of Palo Alto's Financial Statements as of June 30, 2021.

MOTION: Council Member Cormack moved, seconded by Council Member Filseth to recommend the City Council approve the City of Palo Alto's audited financial statements for the fiscal year ending June 30, 2021, and the accompanying reports provided by Macias, Gini & O'Connell LLP.

MOTION PASSED: 3-0

2. Recommendation to the City Council to Approve the Fiscal Year (FY) 2021 Annual Comprehensive Financial Report (ACFR) and FY 2021 Budget Amendments in Various Funds.

MOTION: Council Member Filseth moved, seconded by Council Member Cormack to forward to the City Council for its approval:

- A. The City's FY 2021 Annual Comprehensive Financial Report (ACFR) (Attachment C); and
- B. Amended the Fiscal Year (FY) 2021 Budget Appropriation Ordinance for various funds as identified in the attached Recommended Amendments to the City Manager's FY 2021 Budget (Operating Budget: Attachment B – Exhibit 1; Capital Budget: Attachment B –Exhibit 2).

MOTION PASSED: 3-0

ACTION MINUTES

3. FY 2022 Finance Committee Referrals Update.

NO ACTION TAKEN

Adjournment: The meeting was adjourned at 7:02 P.M.



City of Palo Alto City Council Staff Report

(ID # 13895)

Meeting Date: 1/24/2022

Title: Adoption of a Resolution Declaring Weeds to be a Public Nuisance and Setting January 24, 2022 for a Public Hearing for Objections to the Proposed Weed Abatement

From: City Manager

Lead Department: Fire

Recommendation

Staff recommends that Council adopt the attached resolution:

- 1) Declaring weeds to be a public nuisance;
- 2) Setting February 28, 2022, for a public hearing on objections to proposed weed abatement; and
- 3) Directing staff to publish a notice of hearing in accordance with the provisions of the Palo Alto Municipal Code.

Background

On April 18, 1977, the City Council approved an agreement with Santa Clara County for the administration of weed abatement within the City of Palo Alto. This agreement has reduced the City's costs and staff time required for the administration of weed abatement. For the past 42 seasons, the weed abatement program has been expeditiously carried out by the County Department of Agriculture and Resource Management with results satisfactory to Palo Alto residents.

Discussion

Palo Alto Municipal Code Chapter 8.08 specifies weed abatement procedures. The chapter requires property owners or occupants to remove certain weeds, as defined in Section 8.08.010 that exist upon their premises, public sidewalks, streets, or alleys. It also specifies the procedures to be followed to abate weeds, in the event owners do not remove them. The procedures are as follows:

- Resolution of the City Council declaring weeds to be a public nuisance. This resolution sets the time and place for hearing any objections to the proposed weed abatement.

- **Public Notice.** This notice informs property owners of the passage of the resolution and provides that property owners shall remove weeds from their property, or the abatement will be carried out by Santa Clara County (County). The City then publishes a legal advertisement in the local newspaper announcing the date of the public hearing.
- **Public Hearing.** The Council must conduct a public hearing, at which time any property owner may appear and object to the proposed weed destruction or removal. After the City Council hearing and considering any objections the Council may allow or overrule any or all objections. If objections are overruled, the County will be asked to perform the work of destruction and removal of weeds. The action taken by the Council at the January 24, 2022 meeting will set this public hearing date for February 28, 2022.

An overview of the program and annual calendar for the steps involving City Council action is provided in Attachment B.

Resource Impact

There is no direct fiscal impact of this action on the City. The City of Palo Alto administers the weed abatement program with the County Department of Agriculture and Resource Management with a minimal amount of staff time. All charges for the weed abatement services are included as a special assessment on bills for taxes levied against the respective lots and parcels of land. Such charges are considered liens on these properties.

The Weed Abatement Program is a cost recovery program and does not receive funding from City or County general funds.

Policy Implications

This procedure is consistent with existing City policies.

Environmental Review

The Santa Clara County Counsel has determined the Weed Abatement Program be Categorically Exempt from CEQA pursuant to CEQA Guidelines Section 15308.

Attachments:

- **Attachment6.a:** Attachment A- Declaring Weeds to be Nuisance Setting Public Hearing
- **Attachment6.b:** Attachment B - ANNUAL WEED ABATEMENT CYCLE

NOT YET APPROVED

ATTACHMENT A

Resolution No. _____

Resolution of Intention of the Council of the City of Palo Alto
 Declaring Weeds to be a Nuisance and Setting ____ [INSERT DATE] __ for
 a Public Hearing for Objections to Proposed Weed Abatement

RECITALS

A. Weeds, as defined in Section 8.08.010(b) of the Palo Alto Municipal Code, are anticipated to develop during calendar year _____ upon streets, alleys, sidewalks, and parcels of private property within the City of Palo Alto sufficient to constitute a public nuisance as a fire menace when dry or are otherwise combustible, or otherwise to constitute a menace to the public health as noxious or dangerous.

NOW, THEREFORE, the Council of the City of Palo Alto does RESOLVE as follows:

SECTION 1. Weeds, as defined in Section 8.08.010(b) of the Palo Alto Municipal Code, which are anticipated to develop during calendar year _____ upon streets, alleys, sidewalks, and parcels of private property within the City of Palo Alto, are hereby found and determined to constitute a public nuisance. Such nuisance is anticipated to exist upon some of the streets, alleys, sidewalks, and parcels of private property within the City, which are shown, described, and delineated on the several maps of the properties in said City which are recorded in the Office of the County Recorder of the County of Santa Clara, reference in each instance for the description of any particular street, alley, or parcel of private property being hereby made to the several maps aforesaid, and, in the event of there being several subdivision maps on which the same lots are shown, reference is hereby made to the latest subdivision map.

SECTION 2. THEREFORE, IT IS ORDERED that the said public nuisance be abated in the manner provided by Chapter 8.08 of the Palo Alto Municipal Code:

IT IS FURTHER ORDERED that a public hearing shall be held on _____, the _____ day of _____, _____, at the hour of _____ pm, or as soon thereafter as the matter may be heard, at the Council Chambers of the Civic Center of said City, at which the Council shall hear objections to the proposed weed abatement of such weeds and give any objections due consideration;

IT IS FURTHER ORDERED that the Fire Chief of the City of Palo Alto is directed to give notice of the public hearing in the time, manner and form provided in Chapter 8.08 of the Palo Alto Municipal Code.

SECTION 3. Unless the nuisance is abated without delay by the destruction and removal of such weeds, the work of abating such nuisance will be done by the County of Santa Clara Department of Agriculture and Resource Management Office on behalf of the City of Palo

NOT YET APPROVED

ATTACHMENT A

Alto, and the expenses thereof assessed upon the lots and lands from which, and/or in the front and rear of which, such weeds shall have been destroyed and removed.

SECTION 4. The Santa Clara County, County Counsel has determined the Weed Abatement Program to be categorically exempt from the provisions of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15308.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

City Clerk

Mayor

APPROVED AS TO FORM:

APPROVED:

Assistant City Attorney

City Manager

Fire Chief

Director of Administrative Services

City of Palo Alto Weed Abatement

The City of Palo Alto contracts with the Santa Clara County Department of Agriculture and Environmental Management (SCCDAEM) to remove and destroy weeds in its efforts to mitigate potential fire hazards (as defined in Palo Alto Municipal Code Chapter 8.08). The entire weed abatement program is coordinated by the SCCDAEM. Abatement proceedings must follow a legally established course. This is an annual process with weed abatement occurring in late Spring. City of Palo Alto involvement is limited to the following 3 steps for City Council:

- 1) (Nov-Dec) City of Palo Alto Declares Weeds a Nuisance to allow for County abatement and sets a later date (Jan-Feb) for a public hearing to review the Annual Commencement Report (list of "nuisance" parcels).
- 2) (Jan-Feb) Public Hearing to review the Annual Commencement Report and approve the County abatement proceedings. At this public hearing, property owners may appear and object to the proposed weed destruction or removal. After the hearing and consideration of any objections, the Council may sustain or overrule any or all objections. Upon adoption of the resolution confirming the weed abatement commencement report and ordering weed nuisances abated, the County will be asked to perform the abatement work to destroy and remove any weeds.
- 3) (June) Public Hearing to approve the invoices for the abatement work performed by the SCCDAEM.

The Santa Clara County Weed Abatement Program

The Santa Clara County Department of Agriculture and Environmental Management and the City of Palo Alto work together to protect our community from fire. The purpose of the Weed Abatement Program is to prevent fire hazards posed by vegetative overgrowth and the accumulation of combustible materials.

Typically, a property is placed on the program list by a County Weed Abatement Inspector who identifies a potential fire hazard on the property. The Palo Alto Fire Department (PAFD) & Code Enforcement also report addresses of concern and forward (verified) complaints from residents to the SCCDAEM. Residents can report addresses of concern to PAFD, code enforcement, or directly to the County Weed Abatement Program.

Santa Clara County program staff annually inspect "nuisance" parcels at the beginning of the fire season, which is typically April 30th for CPA parcels.

The Weed Abatement program is entirely funded from fees charged to residents. All parcels on the list will be charged a basic inspection fee. If the parcel is not in compliance at the time of inspection, the property owner will be charged an additional failed inspection fee, and they will receive a final courtesy notice as a reminder to abate their weeds within 2 weeks.

If the weeds are not abated by the property owner, the work will be completed by the County contractor. The property owner will pay the contractor's fees plus a County administrative fee. All fees will be included in their property tax bill.

Properties that meet and maintain the minimum fire safety standards will only be charged for the annual fee. These properties will be removed from the list after three years of compliance.



City of Palo Alto City Council Staff Report

(ID # 13727)

Meeting Date: 1/24/2022

Title: Adoption of a Resolution Scheduling the City Council Summer Break and Winter Closure for 2022

From: City Manager

Lead Department: City Clerk

RECOMMENDATION

Adopt the attached Resolution scheduling the City Council 2022 Summer Break and Winter Closure on dates determined by Council.

BACKGROUND

Under Municipal Code Section 2.04.010(b), each year, no later than the third meeting in February, the Council shall, by Resolution, schedule its vacation for that year. During the vacation period, the Code states that there shall be no regular meetings of the Council or its standing committees. Under the Code, the Mayor or a majority of the Council may call a special meeting during the scheduled vacation, if necessary.

Staff proposes **Wednesday, June 22, 2022 through Sunday, July 31, 2022** for the summer break. Additionally, Staff proposes **Wednesday, December 21, 2022 through Sunday, January 8, 2023** for the winter closure.

Staff respectfully requests Council's determination regarding the dates to be set for the Council breaks and adoption of the attached Resolution.

Attachments:

- **Attachment7.a:** Draft Resolution

NOT YET APPROVED

Resolution No.

Resolution of the Council of the City of Palo Alto Scheduling the
City Council Summer Vacation and Winter Closure for Calendar Year 2022

R E C I T A L S

A. Pursuant to Section 2.04.010 of the Municipal Code, the City Council must schedule its annual vacation for each calendar year no later than the third meeting in February.

B. The City Council desires to set its annual vacation for 2022.

NOW, THEREFORE, the Council of the City of Palo Alto RESOLVES as follows:

SECTION 1. The City Council sets its summer vacation for calendar year 2022 from Wednesday June 22, 2022 through Sunday, July 31, 2022 and winter closure from Wednesday, December 21, 2021 through Sunday, January 8, 2022.

SECTION 2. The Council finds that the adoption of this resolution does not meet the definition of a project under Public Resources Code Section 21065, thus, no environmental assessment under the California Environmental Quality Act is required.

INTRODUCED AND PASSED: January 24, 2022

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

APPROVED:

City Clerk

Mayor

APPROVED AS TO FORM:

City Attorney

City Manager



City of Palo Alto
Office of the City Attorney
City Council CAO Report

(ID # 13928)

Meeting Date: 1/24/2022

Title: Adoption of a Resolution Authorizing Use of Teleconferencing for Council Meetings During Covid-19 State of Emergency

From: Molly Stump, City Attorney

Recommendation

Adopt a Resolution (**Attachment A**) authorizing the use of teleconferencing under Government Code Section 54953(e) for meetings of the Council and its committees due to the Covid-19 declared state of emergency.

Background

In February and March 2020, the state and the County declared a state of emergency due to the Covid-19 pandemic. Both emergency declarations remain in effect.

On September 16, 2021, the Governor signed AB 361, a bill that amends the Brown Act, effective October 1, 2021, to allow local policy bodies to continue to meet by teleconferencing during a state of emergency without complying with restrictions in State law that would otherwise apply, provided that the policy bodies make certain findings at least once every 30 days.

AB 361, codified at California Government Code Section 54953(e), empowers local policy bodies to convene by teleconferencing technology during a proclaimed state of emergency under the State Emergency Services Act in any of the following circumstances:

- (A) The legislative body holds a meeting during a proclaimed state of emergency, and state or local officials have imposed or recommended measures to promote social distancing.
- (B) The legislative body holds a meeting during a proclaimed state of emergency for the purpose of determining, by majority vote, whether as a result of the emergency, meeting in person would present imminent risks to the health or safety of attendees.

(C) The legislative body holds a meeting during a proclaimed state of emergency and has determined, by majority vote, pursuant to subparagraph (B) (B), that, as a result of the emergency, meeting in person would present imminent risks to the health or safety of attendees. (Gov. Code § 54953(e)(1).)

In addition, Section 54953(e)(3) requires that policy bodies using teleconferencing reconsider the state of emergency within 30 days of the first teleconferenced meeting after October 1, 2021, and at least every 30 days thereafter, and find that one of the following circumstances exists:

1. The state of emergency continues to directly impact the ability of the members to meet safely in person.
2. State or local officials continue to impose or recommend measures to promote social distancing.

Discussion

At this time, the circumstances in Section 54953(e)(1)(A) exist. The Santa Clara County Health Officer continues to recommend measures to promote outdoor activity, physical distancing and other social distancing measures, such as masking, in certain contexts. (See August 2, 2021 [Order](#).) In addition, the California Department of Industrial Relations Division of Occupational Safety and Health (Cal/OSHA) has promulgated Section 3205 of Title 8 of the California Code of Regulations, which requires most employers in California, including in the City, to train and instruct employees about measures that can decrease the spread of COVID-19, including physical distancing and other social distancing measures.

Accordingly, Section 54953(e)(1)(A) authorizes the City to continue using teleconferencing for public meetings of its policy bodies, provided that any and all members of the public who wish to address the body or its committees have an opportunity to do so, and that the statutory and constitutional rights of parties and the members of the public attending the meeting via teleconferencing are protected.

To comply with public health directives and promote public safety, Palo Alto policy bodies have been meeting via teleconference since March 2020. On September 27, 2021, Council considered the format for future Council, committee, and Board and Commission meetings. Council determined that beginning November 1, 2021, Council meetings would be conducted using a hybrid format that allows Council Members and the public to decide whether to attend in person, following masking and distancing protocols, or participate via teleconference. Council directed that Council standing and ad-hoc committees and Boards and Commissions would continue meeting via teleconference through January 2022.

Adoption of the Resolution at **Attachment A** will make the findings required by Section 54953(e)(3) to allow the continued use of teleconferencing for Council meetings (for those Council Members who elect to participate remotely) and for Council standing and ad hoc committees. Each Board and Commission will consider and make similar findings.

ATTACHMENTS:

- **Attachment8.a:** Attachment A: Resolution Allowing Hybrid In-Person and Teleconferenced Meetings under Section 54953(e) (PDF)

NOT YET APPROVED

Resolution No. _____

Resolution Making Findings to Allow Teleconferenced Meetings Under California Government
Code Section 54953(e)

R E C I T A L S

A. California Government Code Section 54953(e) empowers local policy bodies to convene by teleconferencing technology during a proclaimed state of emergency under the State Emergency Services Act so long as certain conditions are met; and

B. In March 2020, the Governor of the State of California proclaimed a state of emergency in California in connection with the Coronavirus Disease 2019 (“COVID-19”) pandemic, and that state of emergency remains in effect; and

C. In February 2020, the Santa Clara County Director of Emergency Services and the Santa Clara County Health Officer declared a local emergency, which declarations were subsequently ratified and extended by the Santa Clara County Board of Supervisors, and those declarations also remain in effect; and

D. On September 16, 2021, the Governor signed AB 361, a bill that amends the Brown Act to allow local policy bodies to continue to meet by teleconferencing during a state of emergency without complying with restrictions in State law that would otherwise apply, provided that the policy bodies make certain findings at least once every 30 days; and

E. While federal, State, and local health officials emphasize the critical importance of vaccination and consistent mask-wearing to prevent the spread of COVID-19, the Santa Clara County Health Officer has issued at least one order, on August 2, 2021 (available online at [here](#)), that continues to recommend measures to promote outdoor activity, physical distancing and other social distancing measures, such as masking, in certain contexts; and

F. The California Department of Industrial Relations Division of Occupational Safety and Health (“Cal/OSHA”) has promulgated Section 3205 of Title 8 of the California Code of Regulations, which requires most employers in California, including in the City, to train and instruct employees about measures that can decrease the spread of COVID-19, including physical distancing and other social distancing measures; and

G. The Palo Alto City Council has met remotely during the COVID-19 pandemic and can continue to do so in a manner that allows public participation and transparency while minimizing health risks to members, staff, and the public that would be present with in-person meetings while this emergency continues; now, therefore,

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

1. As described above, the State of California remains in a state of emergency due to the COVID-19 pandemic. At this meeting, the Palo Alto City Council has considered the circumstances of the state of emergency.
2. As described above, State and County officials continue to recommend measures to promote physical distancing and other social distancing measures, in some settings.

AND BE IT FURTHER RESOLVED, That for at least the next 30 days, meetings of the Palo Alto City Council and its committees will occur in a hybrid format, where both members of the policy body and members of the public may elect to be present in person, utilizing appropriate distancing and masking practices, or participate by teleconferencing technology. Such meetings of the Palo Alto City Council and its committees that occur using teleconferencing technology will provide an opportunity for any and all members of the public who wish to address the body its committees and will otherwise occur in a manner that protects the statutory and constitutional rights of parties and the members of the public attending the meeting via teleconferencing; and, be it

FURTHER RESOLVED, That the City Clerk is directed to place a resolution substantially similar to this resolution on the agenda of a future meeting of the Palo Alto City Council within the next 30 days. If the Palo Alto City Council does not meet within the next 30 days, the City Clerk is directed to place a such resolution on the agenda of the immediately following meeting of Palo Alto City Council.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

City Clerk

Mayor

APPROVED AS TO FORM:

APPROVED:

City Attorney

City Manager



City of Palo Alto City Council Staff Report

(ID # 13944)

Meeting Date: 1/24/2022

Title: SECOND READING: Adopt a Park Improvement Ordinance for the Replacement of the Palo Alto Flood Basin Tide Gate Structure in the City's Baylands (FIRST READING: January 10, 2022 PASSED: 7-0)

From: City Manager

Lead Department: City Clerk

This was heard by the City Council on January 10, 2022 for a first reading and was approved 7-0. No changes were made to the Ordinance; it is now before you for a second reading.

Attachments:

- **Attachment9.a:** Attachment A: Park Improvement Ordinance for Replacement of the Palo Alto Flood Basin Tide Gate at Baylands

NOT YET APPROVED

ORDINANCE NO.
Ordinance of The Council of The City of Palo Alto Approving
a Plan for Improvements to the
Palo Alto Flood Basin Tide Gate Structure as part of the
Palo Alto Flood Basin Tide Gate Structure Replacement Project

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

SECTION 1. Findings. The City Council finds and declares that:

- (a) Article VIII of the Charter of the City of Palo Alto and Section 22.08.005 of the Palo Alto Municipal Code (PAMC) require that, before any substantial building, construction, reconstruction or development is commenced or approved, upon or with respect to any land held by the City for park purposes, the Council shall first cause to be prepared and by ordinance approve and adopt a plan therefor.
- (b) The Palo Alto Flood Basin Tide Gate Structure (Structure) is part of the Adobe Creek Loop Trail (Trail). The Structure is located in the City's Baylands, which is dedicated parkland (See PAMC § 22.08.020 *et seq.*) Based on the Conditional Structural Assessment of the existing Structure and reduced functionality, the Structure is planned to be replaced.
- (c) The City of Palo Alto intends to authorize Santa Clara Valley Water District (Valley Water) to construct a replacement Structure. The new Structure will replace the existing 1957-built Structure which has outlived its intended service life and has been recommended for replacement.
- (d) The Plan of improvements shall comprise, as follows:
 - (1) The Project will construct a replacement Structure near the existing Structure, and new levees to connect the Trail to the replacement Structure. The project will re-align a portion of the levees and Trail as required to accommodate the replacement Structure location. The existing Structure will be removed after the replacement Structure and levees are constructed. Select plan sheets showing the in-progress design are attached as Exhibit "A".
 - (2) The Project will require temporary closures to portions of the Trail to accommodate construction of the replacement Structure and connecting levee work. A diagram illustrating anticipated Trail closures is attached as Exhibit "B". If the replacement Structure is not constructed, future degradation of the existing Structure will occur and would eventually require closure of the Trail for an unknown duration of time.
 - (3) The replacement Structure will include a dedicated concrete bay with motor driven sluice gate solely for the City's use of maintaining water quality within the PAFB and controlling mosquito breeding. This new motor operated sluice gate will replace the existing motor operated sluice gate which is owned and operated by

NOT YET APPROVED

the City. The Structure will also include new water level sensors and Supervisory Control and Data Acquisition (SCADA) system to improve flexibility and efficiency for the City's sluice gate operations. The new sluice gate will enable remote operation of the sluice gate.

The replacement Structure with its improved operations and maintenance features and improved hydraulic performance is anticipated to reduce mosquito breeding within the PAFB compared to the existing conditions.

(e) The Project described above and as otherwise depicted in the attached exhibits is consistent with recreation and conservation purposes

(f) The Council desires to approve the Plans for the Project described above and as depicted in Exhibit "A" and Exhibit "B".

SECTION 2. The Council hereby approves the Plan for construction of the Palo Alto Flood Basin Tide Gate Structure Replacement Project as described in this Ordinance.

SECTION 3. Valley Water is the Lead Agency for the Project under the California Environmental Quality Act (CEQA). Valley Water performed an Initial Study and determined that a Mitigated Negative Declaration (MND) is the appropriate level of review. A resolution adopting the Final MND (Resolution) was signed by Valley Water's Board on April 27, 2021. The Final MND and Resolution are available online from the project website: <https://www.valleywater.org/pafbtidegates>. The City Council finds that the City of Palo Alto is a responsible agency under CEQA for the Project and certifies that it has reviewed and considered the information contained in Valley Water's MND.

Valley Water has applied for regulatory permits from six resource agencies and are currently working with the resource agencies for mitigation requirements and permit conditions.

SECTION 4. This ordinance shall be effective on the thirty-first day after the date of its adoption.

INTRODUCED:

PASSED:

AYES:

NOES:

ABSENT:

NOT YET APPROVED

ABSTENTIONS:

ATTEST:

City Clerk

Mayor

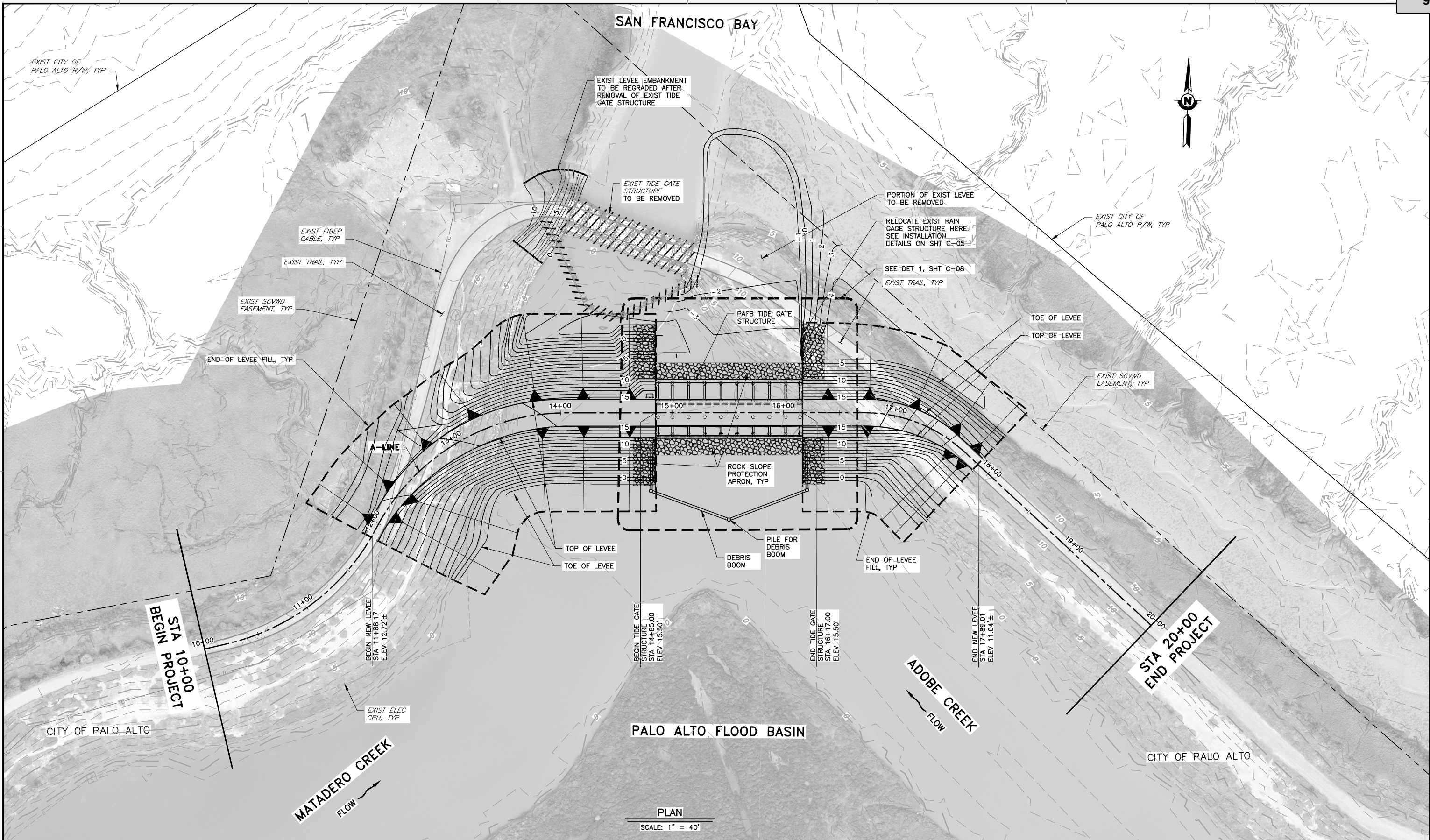
APPROVED AS TO FORM:


APPROVED:

Deputy City Attorney

City Manager

Director of Community Services



REV	DESCRIPTION	DATE	APPR	EXHIBIT A	DATE	ENGINEERING CERTIFICATION	SANTA CLARA VALLEY WATER DISTRICT	PROJECT NAME AND SHEET DESCRIPTION:	SCALE	PROJECT NUMBER	
					DESIGN			PALO ALTO TIDE GATE STRUCTURE REPLACEMENT PROJECT	AS SHOWN		
					DRAWN				PLAN	EXHIBIT A PAGE 1 OF 4	
					CHECKED						
					ENGINEER	DATE					


Packet Pg. 357



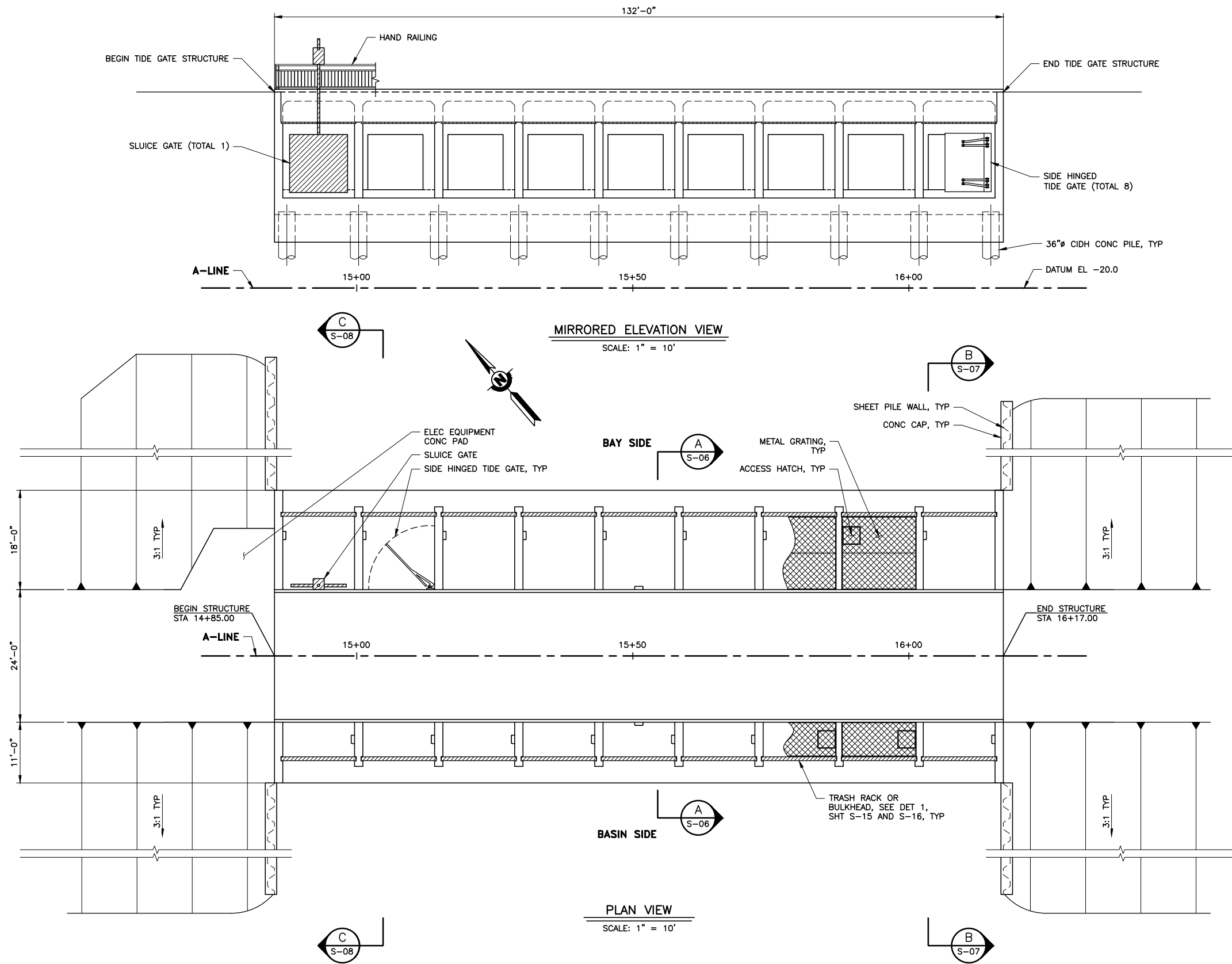
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Packet Pg. 358

REV	DESCRIPTION	DATE	APPR	EXHIBIT A	DATE	ENGINEERING CERTIFICATION	SANTA CLARA VALLEY WATER DISTRICT	PROJECT NAME AND SHEET DESCRIPTION:	SCALE	PROJECT NUMBER
					DESIGN		<p align="center">PALO ALTO TIDE GATE STRUCTURE REPLACEMENT PROJECT</p> <p align="center">TYPICAL SECTIONS</p>	<p align="center">EXHIBIT A PAGE 2 OF 4</p>	AS SHOWN	
					DRAWN					
					CHECKED					
					PROJECT ENGINEER				DATE	

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REV	DESCRIPTION	DATE	APPR	REFERENCE INFORMATION AND NOTES	DATE	ENGINEERING CERTIFICATION	SANTA CLARA VALLEY WATER DISTRICT	PROJECT NAME AND SHEET DESCRIPTION:	SCALE	PROJECT NUMBER
				EXHIBIT A				PALO ALTO TIDE GATE STRUCTURE REPLACEMENT PROJECT	AS SHOWN	
								STRUCTURE GENERAL PLAN		
										EXHIBIT A PAGE 3 OF 4 Packet Pg. 359

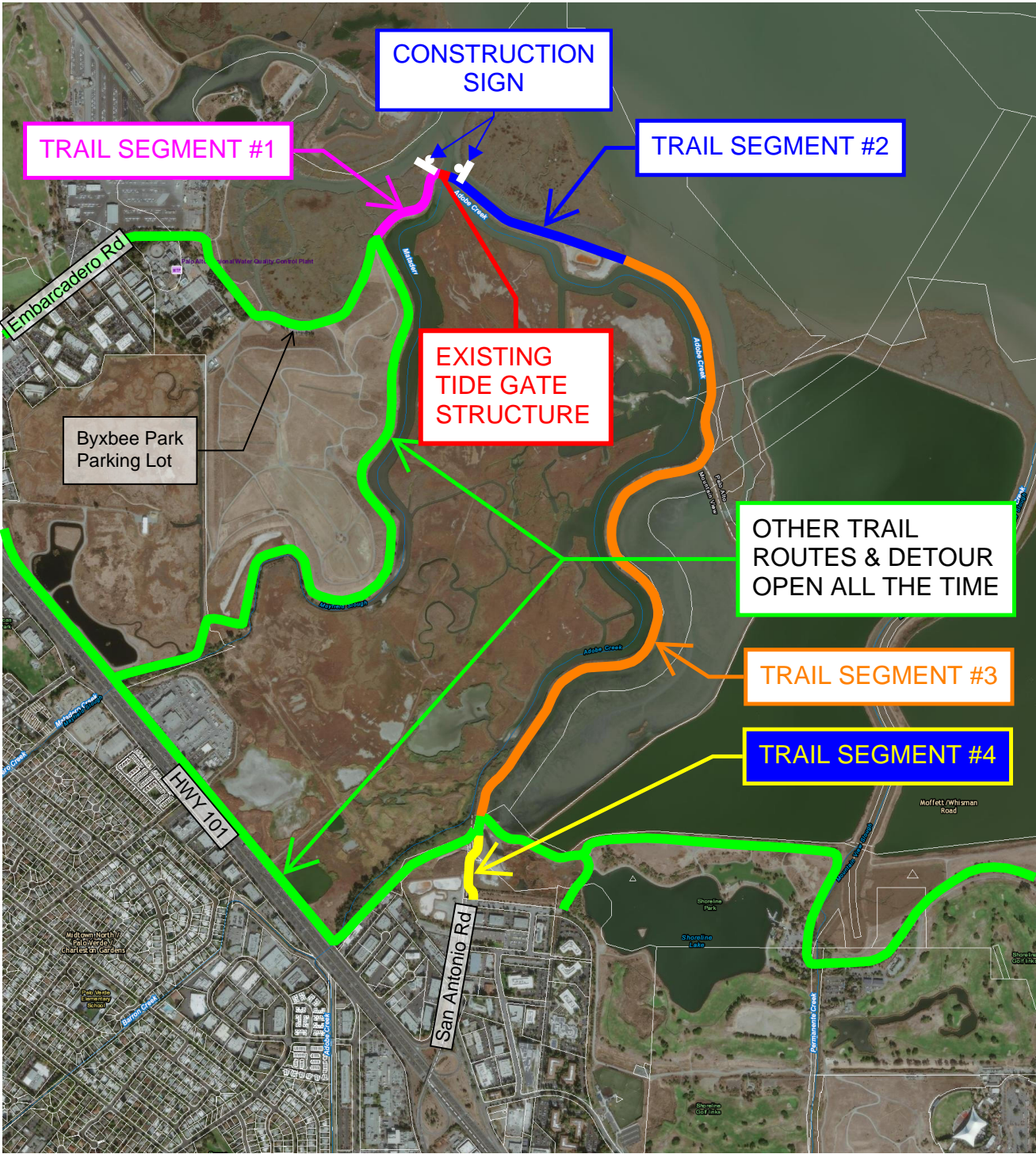


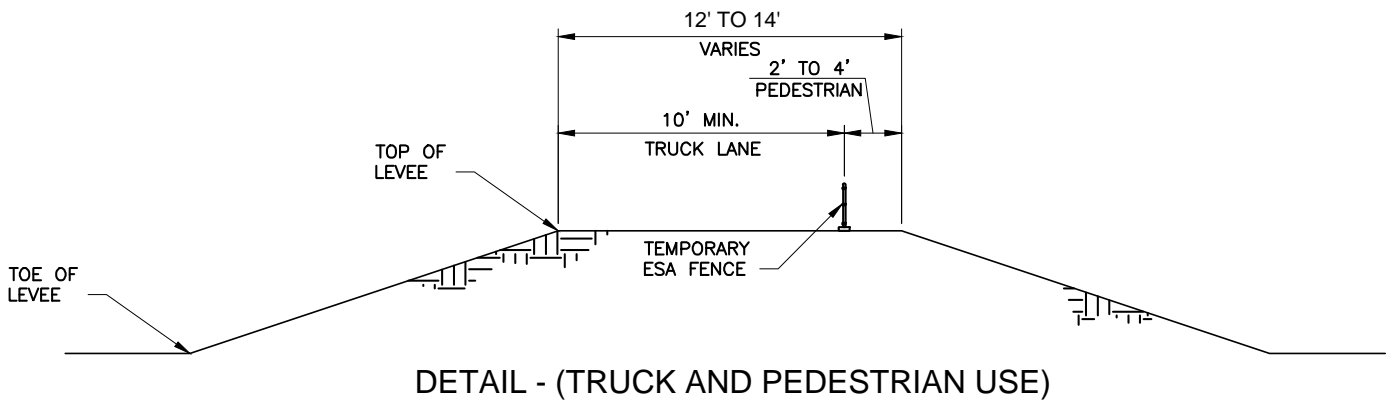
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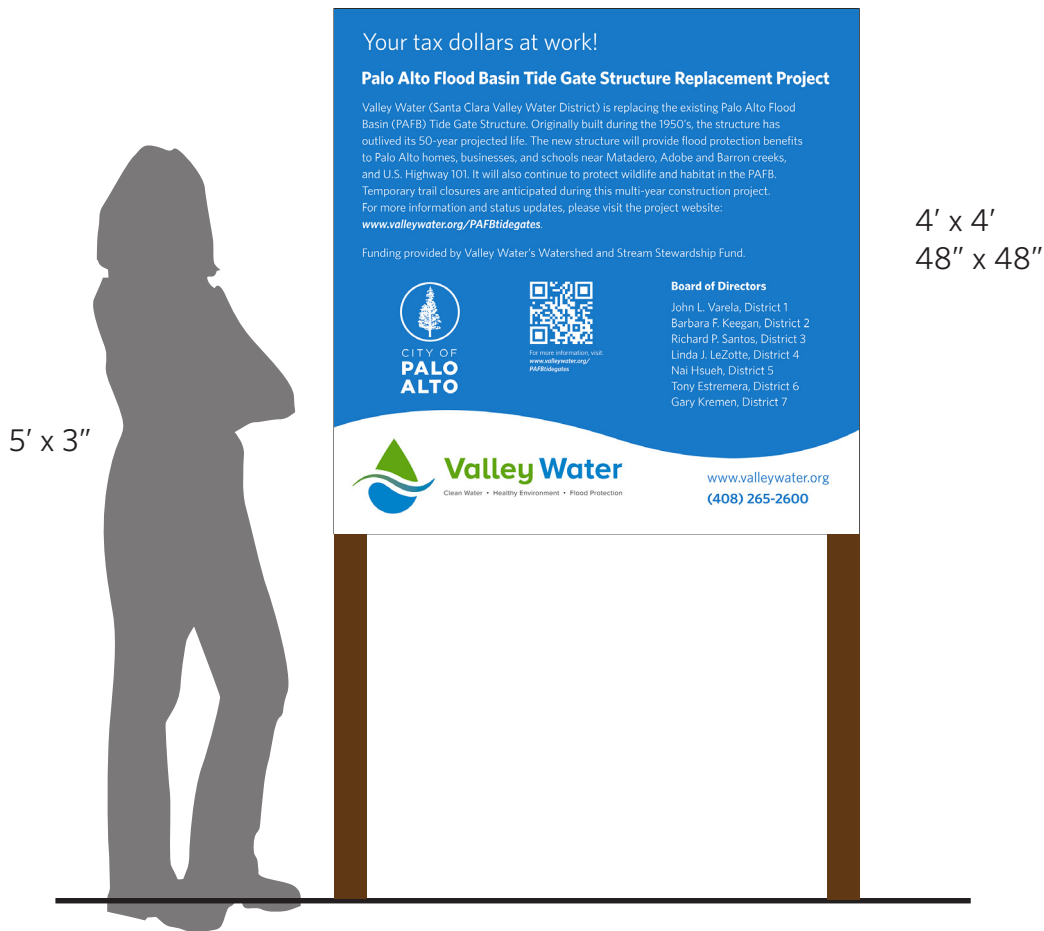
Activity	Target Time Period			Trail Location (See Map Below)				
	Start	End	Duration	Segment #1	Tide Gate Structure	Segment #2	Segment #3	Segment #4
Year 1 Construction	9/1/2022	1/31/2023	5 months	CLOSED	CLOSED	CLOSED	CLOSED	CLOSED
No Construction	2/1/2023	8/31/2023	7 months	OPEN	OPEN	CLOSED	OPEN	OPEN
Year 2 Construction	9/1/2023	1/31/2024	5 months	CLOSED	CLOSED	CLOSED	CLOSED	CLOSED
No Construction	2/1/2024	8/31/2024	7 months	OPEN	OPEN	CLOSED	OPEN	OPEN
Year 3 Construction	9/1/2024	1/31/2025	5 months	CLOSED	CLOSED	CLOSED	CLOSED	OPEN
No Construction	2/1/2025	8/31/2025	7 months	OPEN	OPEN	OPEN	OPEN	OPEN
Year 4 Construction	9/1/2025	11/30/2025	3 months	CLOSED	CLOSED	CLOSED	CLOSED	OPEN
Project completed	12/1/2025	Onward	N/A	OPEN	OPEN	OPEN	OPEN	OPEN
Total Cumulative Trail Closure Duration Per Trail Location =				18 months	18 months	32 months	18 months	10 months

Dates above are tentative target dates subject to change pending project development and acquisition of all required project permits.





SIGN SIZE



Construction Sign for Palo Alto Flood Basin Project



City of Palo Alto

City Council Staff Report

(ID # 13945)

Meeting Date: 1/24/2022

Title: SECOND READING: Adoption of an Interim Ordinance Amending Titles 16, 18 and 21 in Response to Senate Bills 9 and 478, Including Amendment to the City's Affordable Housing Requirements for SB 9 Projects. CEQA Status: This Action is not Considered a Project or is Exempt from CEQA in Accordance With Government Code Sections 66411.7(n) and 65852.21(j) or Section 15061 of the State CEQA Guidelines. (FIRST READING: January 10, 2022 PASSED: 7-0)

From: City Manager

Lead Department: City Clerk

This was heard by the City Council on January 10, 2022 for a first reading and was approved 7-0. No changes were made to the Ordinance; it is now before you for a second reading.

Attachments:

- **Attachment10.a:** Attachment A: Interim Ordinance to Implement SB 9 (INC AF HSG)

NOT YET ADOPTED

Ordinance No. _____

Interim Ordinance of the Council of the City of Palo Alto Modifying Chapters 16.65 (Citywide Affordable Housing Requirements), 18.10 (Low-Density Residential, RE, R-2, and RMD Districts), 18.12 (R-1 Single-Family Residential District), 18.13 (Multiple Family Residential, RM20, RM30, RM40), 18.16 (Commercial Districts, CN, CC, CS), 18.18 (Downtown Commercial, CD-C, CD-S, CD-N), 18.40 (General Standards and Exceptions), and 18.42 (Standard for Special Uses) of Title 18 (Zoning) and Adding Chapter 21.10 (Parcel Maps for Urban Lot Splits) of the Palo Alto Municipal Code to Implement Recent State Housing Bills

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

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

- A. On September 16, 2021, Governor Newsom signed into law Senate Bill 9 (SB 9), which requires, among other things, that local agencies ministerially approve both two-unit construction and urban lot splits on single-family zoned lots.
- B. SB 9 authorizes the creation of lots as small as 1,200 square feet, and requires approval of two residential units of at least 800 square feet (for a total of 1,600 square feet) each on such lots. This represents a significant departure from existing minimum lot sizes and development standards in Palo Alto's single-family zones.
- C. The increased density and intensity of development authorized by SB 9 has the potential to negatively impact privacy, access for emergency vehicles, and aesthetics of residential neighborhoods. In addition, the ministerial review required by SB 9 could result in the unintentional loss of historic resources in Palo Alto's single family zones.
- D. SB 9 authorizes local jurisdictions to apply objective zoning standards, objective subdivision standards, and objective design standards, subject to certain limitations in statute.
- E. On September 16, 2021, Governor Newsom signed into law Senate Bill 478 (SB 478), which requires, among other things, that local agencies provide specified minimum floor area ratios for housing development projects containing 3 to 10 dwelling units.
- F. There is insufficient time for consideration of and recommendation on objective standards related to SB 9, code amendments related to SB 478, and associated code amendments to Title 18 by the Planning and Transportation Commission (PTC) prior to action by the City Council. The Council therefore declares that an interim ordinance, pursuant to Palo Alto Municipal Code (PAMC) Section 18.80.090 is an appropriate

NOT YET ADOPTED

measure to adopt standards, pending consideration of a permanent ordinance by the PTC.

SECTION 2. Section 18.10.020 (Applicable Regulations) of Chapter 18.10 (Low-Density Residential (RE, R-2 and RMD) Districts) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows (new text underlined and deletions ~~struck through~~):

18.10.020 Applicable Regulations

The specific regulations of this chapter and the additional regulations and procedures established by Chapters [18.52](#) to [18.80](#) inclusive shall apply to all low-density residential districts. Such regulations shall apply to construction of two units on an RE-zoned lot pursuant to California Government Code Section 65852.21 (SB 9, 2021), except as modified by Section 18.42.180.

SECTION 3. Section 18.10.030 (Land Uses) of Chapter 18.10 (Low-Density Residential (RE, R-2 and RMD) Districts) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

18.10.030 Land Uses

Table 1 shows the permitted and conditionally permitted uses for the low-density residential districts.

TABLE 1

PERMITTED AND CONDITIONALLY PERMITTED LOW-DENSITY RESIDENTIAL USES

[P = Permitted Use -- CUP = Conditional Use Permit Required]

	RE	R-2	RMD	Subject to Regulations in:
[. . .]	[. . .]	[. . .]	[. . .]	[. . .]
RESIDENTIAL USES				
Single-Family	P	P	P	
Two-Family use, under one ownership	<u>P (4)</u>	P	P	
Mobile Homes	P	P	P	18.42.100
Residential Care Homes	P	P	P	
[. . .]	[. . .]	[. . .]	[. . .]	[. . .]
P = Permitted Use		CUP = Conditional Use Permit Required		

NOT YET ADOPTED

Footnotes:

(1) **Sale of Agricultural Products:** No permanent commercial structures for the sale or processing of agricultural products are permitted.

(2) **Accessory Dwelling Units in R-2 and RMD Zones:** An accessory dwelling unit or a Junior Accessory Dwelling Unit associated with a single-family residence on a lot in the R-2 or RMD zones is permitted, subject to the provisions of Section [18.42.040](#), and such that no more than two units result on the lot.

(3) **Bed and Breakfast Inns:** Bed and breakfast inns are limited to no more than 4 units (including the owner/resident's unit) in the RMD district.

(4) **Two Unit Development Pursuant to California Government Code Section 65852.21 (SB 9, 2021):** Construction of two units is permitted on an RE-zoned lot, subject to the regulations in Section 18.42.180.

SECTION 4. Section 18.10.040 (Development Standards) of Chapter 18.10 (Low-Density Residential (RE, R-2 and RMD) Districts) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

18.10.040 Development Standards

(a) Site Specifications, Building Size, Height and Bulk, and Residential Density

The development standards for the low-density residential districts are shown in Table 2:

TABLE 2**LOW-DENSITY RESIDENTIAL DEVELOPMENT STANDARDS**

	R-E <u>(6)</u>	R-2	RMD	Subject to Regulations in:
[. . .]	[. . .]	[. . .]	[. . .]	[. . .]

Footnotes:

(1) **Minimum Lot Size:** Any lot less than the minimum lot size may be used in accordance with the provisions of [Chapter 18.40](#).

(2) **R-2 Floodzone Heights:** Provided, in a special flood hazard area as defined in [Chapter 16.52](#), the maximum heights are increased by one-half of the increase in elevation required to reach base flood elevation, up to a maximum building height of 33 feet.

(3) **R-2 Floodzone Daylight Plane:** Provided, if the site is in a special flood hazard area and is entitled to an increase in the maximum height, the heights for the daylight planes shall be adjusted by the same amount.

(4) **Exemption from Floor Area for Covered Parking Required for Two-Family Uses:** In the R-2 and RMD districts, for two-family uses, floor area limits may be exceeded by a maximum of two hundred square feet, for purposes of providing one required covered parking space.

(5) **Maximum House Size:** The gross floor area of attached garages and attached accessory dwelling units and junior accessory dwelling units are included in the calculation of maximum

NOT YET ADOPTED

house size. If there is no garage attached to the house, then the square footage of one detached covered parking space shall be included in the calculation. This provision applies only to single-family residences, not to duplexes allowed in the R-2 and RMD districts.

(6) Two Unit Development Pursuant to California Government Code Section 65852.21 (SB 9, 2021): Construction of two units on an RE-zoned lot shall be subject to the development standards in this Section 18.10.040, except as modified by Section 18.42.180.

[. . .]

SECTION 5. Table 3 (PARKING REQUIREMENTS FOR R-E, R-2 AND RMD USES) of Section 18.10.060 (Parking) of Chapter 18.10 (Low-Density Residential (RE, R-2 and RMD) Districts) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

[. . .]

TABLE 3
PARKING REQUIREMENTS FOR R-E, R-2 AND RMD USES

Use	Minimum Off-Street Parking Requirement
Single-family residential use (excluding accessory dwelling units)	2 spaces per unit, of which one must be covered.
<u>Two family in the RE district, pursuant to California Government Code Section 65852.21 (SB 9, 2021)</u>	<u>1 space per unit. No spaces required if located within one-half mile walking distance of either a high-quality transit corridor or a major transit stop, or located within one block of a car share vehicle.</u>
Two family (R2 & RMD districts)	3 spaces total, of which at least two must be covered
Accessory dwelling unit, attached or detached:	No parking required
Junior accessory dwelling unit	No parking required
Other Uses	See Chapter 18.40

[. . .]

SECTION 6. Section 18.10.070 (Accessory and Junior Accessory Dwelling Units) of Chapter 18.10 (Low-Density Residential (RE, R-2 and RMD) Districts) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows (new text underlined and deletions ~~struck through~~):

NOT YET ADOPTED

18.10.070 Accessory and Junior Accessory Dwelling Units

Accessory Dwelling Units and Junior Accessory Dwelling Units are subject to the regulations set forth in Chapter 18.09 Section 18.42.040.

SECTION 7. Section 18.12.020 (Applicable Regulations) of Chapter 18.12 (R-1 Single Family Residential District) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows (new text underlined and deletions ~~struck through~~):

18.12.020 Applicable Regulations

The specific regulations of this chapter and the additional regulations and procedures established by Chapters [18.52](#) to [18.80](#) inclusive shall apply to the R-1 district including the R-1 subdistricts. Such regulations shall apply to construction of two units on an R1-zoned lot pursuant to California Government Code Section 65852.21 (SB 9), except as modified by Section 18.42.180.

SECTION 8. Section 18.12.030 (Land Uses) of Chapter 18.12 (R-1 Single Family Residential District) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

18.12.030 Land Uses

The permitted and conditionally permitted uses for the single family residential districts are shown in Table 1:

Table 1
PERMITTED AND CONDITIONAL R-1 RESIDENTIAL USES

	R-1 and all R-1 Subdistricts	Subject to Regulations in:
[. . .]	[. . .]	[. . .]
RESIDENTIAL USES		
Single-Family	P	
<u>Two-Family use, under one ownership</u>	<u>P</u>	<u>18.42.180</u>
Mobile Homes	P	18.42.100
Residential Care Homes	P	
[. . .]	[. . .]	[. . .]
P = Permitted Use CUP = Conditional Use Permit Required		

NOT YET ADOPTED

SECTION 9. Section 18.12.040 (Site Development Standards) of Chapter 18.12 (R-1 Single Family Residential District) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

18.12.040 Site Development Standards

(a) Site Specifications, Building Size, Height and Bulk, and Residential Density

The development standards for the R-1 district and the R-1 subdistricts are shown in Table 2, except to the extent such standards may be modified by Section 18.42.180 for two-family uses pursuant to California Government Code Section 65852.21 (SB 9, 2021):

[. . .]

SECTION 10. Section 18.12.060 (Parking) of Chapter 18.12 (R-1 Single Family Residential District) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

18.12.060 Parking

Off-street parking and loading facilities shall be required for all permitted and conditional uses in accord with Chapters [18.52](#) and [18.54](#) of this title. The following parking requirements apply in the R- 1 districts. These requirements are included for reference purposes only, and in the event of a conflict between this Section [18.12.060](#) and any requirement of Chapters [18.52](#) and [18.54](#), Chapters [18.52](#) and [18.54](#) shall apply, except in the case of parcels created pursuant to Section [18.10.140](#)(c) (subdivision incentive for historic preservation).

(a) Parking Requirements for Specific Uses

Table 4 shows the minimum off-street automobile parking requirements for specific uses within the R-1 district.

Table 4	
Parking Requirements for Specific R-1 Uses	
Use	Minimum Off-Street Parking Requirement
Single-family residential use (excluding accessory dwelling units)	2 spaces per unit, of which one must be covered.
<u>Two family use pursuant to California Government Code Section 65852.21 (SB 9, 2021)</u>	<u>1 space per unit. No spaces required if located within one-half mile walking distance of either a high-quality transit corridor or a major transit stop, or located within one block of a car share vehicle.</u>

NOT YET ADOPTED

Accessory dwelling unit, attached or detached	No parking required
Junior accessory dwelling unit	No parking required
Other Uses	See Chs. 18.52 and 18.54

[. . .]

SECTION 11. Section 18.12.070 (Accessory and Junior Accessory Dwelling Units) of Chapter 18.12 (R-1 Single Family Residential District) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows (new text underlined and deletions ~~struck through~~):

18.12.070 Accessory and Junior Accessory Dwelling Units

Accessory Dwelling Units and Junior Accessory Dwelling Units are subject to the regulations set forth in Chapter 18.09 ~~Section 18.42.040~~.

SECTION 12. Section 18.40.160 (Replacement Project or Discretionary Review Required) of Chapter 18.40 (General Standards and Exceptions) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows (new text underlined and deletions ~~struck through~~):

18.40.160 Replacement Project or Discretionary Review Required

(a) No permit required under Title 2 (Administrative Code), Title 12 (Public Works and Utilities), or Title 16 (Building Regulations) shall be issued for demolition or deconstruction of a single family residence or duplex in the Low-Density Residential District (Chapter 18.10) or Single Family Residential District (Chapter 18.12), except ~~for deconstruction pursuant to Section 16.14.130~~ or where necessary for health and safety purposes (as determined by the City's Building Official), unless building permit plans for a replacement project have been approved. This subsection shall also apply to demolition of a single family residence or duplex in the Multiple Family Residential District (Chapter 18.13) when the replacement project does not require discretionary review.

(b) No permit required under Title 2 (Administrative Code), Title 12 (Public Works and Utilities), or Title 16 (Building Regulations) shall be issued for any project requiring discretionary review under Title 18 or Title 21, unless the application for discretionary review has been approved.

SECTION 13. Section 18.52.020 (Definitions) of Chapter 18.52 (Parking and Loading Requirements) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

NOT YET ADOPTED

18.52.020 Definitions

For purposes of this chapter:

[. . .]

(h) "Within one block of a car share vehicle" means within 600 feet of a parking space permanently reserved for use by a car share vehicle.

~~(h)~~(i) Definitions for other parking-related terms can be found in Section 18.04.030(a) (Definitions), including "Parking as a principal use," "Parking facility," and "Parking space."

SECTION 14. Table 1 (Minimum Off-Street Parking Requirements of Section 18.52.040 (Off-Street Parking, Loading, and Bicycle Facility Requirements) of Chapter 18.52 (Parking and Loading Requirements) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

18.52.040 Off-Street Parking, Loading and Bicycle Facility Requirements

[. . .]

Table 1**Minimum Off-Street Parking Requirements**

Use	Vehicle Parking Requirement (# of spaces)	Bicycle Parking Requirement	
		Spaces	Class ¹ Long Term (LT) and Short Term (ST)
RESIDENTIAL USES			
[. . .]	[. . .]	[. . .]	[. . .]
Two-Family Residential (R-2 & RMD Districts)	1.5 spaces per unit, of which at least one space per unit must be covered Tandem Parking Allowed, with one tandem space per unit, associated directly with another parking space for the same unit	1 space per unit	100% - LT
(R-1 and RE Districts, pursuant to Section 18.42.180)	At least one space per unit. No spaces required if the unit is located within one-half mile walking distance of either a high-quality transit corridor or a major transit	1 space per unit	100% - LT

NOT YET ADOPTED

	<u>stop, as defined in California Public Resources Code Sections 21155 and 21064.3 respectively, or located within one block of a car share vehicle.</u>		
[. . .]	[. . .]	[. . .]	[. . .]

[. . .]

SECTION 15. Section 18.42.180 (Interim Standards for Two Units on Single Family Zoned Lots Pursuant to Senate Bill 9) of Chapter 18.42 (Standards for Special Uses) of Title 18 (Zoning) of the Palo Alto Municipal Code is added to read as follows:

18.42.180 Interim Standards for Two Units on Single Family Zoned Lots Pursuant to Senate Bill 9.

(a) **Purpose.** This section sets forth special regulations applicable to the construction of two dwelling units on single family lots in the R-1 (and R-1 subdistricts) and R-E zone districts, pursuant to California Government Code Sections 65852.21 and 66411.7 (SB 9, 2021). In the event of a conflict between the provisions of this section and the generally applicable regulations of Chapters 18.10, 18.12, and 18.52-18.80, inclusive, the provisions of this section shall prevail.

(b) **Definitions.** As used in this section:

- (1) “Specific, adverse impact” means a significant, quantifiable, direct, and unavoidable impact, based on objective, identified written public health or safety or physical environmental standards, policies, or conditions as they existed on the date the application was deemed complete. Inconsistency with the zoning ordinance or general plan land use designation shall not constitute a specific, adverse, impact.
- (2) “Sufficient to allow separate conveyance” means the two dwelling units constitute clearly defined, separate, and independent housekeeping units without interior access points to the other dwelling unit.
- (3) “Two dwelling units” means the development proposes two new units on a vacant lot or proposes to add one new unit to one existing unit on a lot. This does not include the development of a single dwelling unit on a vacant lot.
- (4) “Unit” means any dwelling unit, including, but not limited to a primary dwelling unit, an accessory dwelling unit, or a junior accessory dwelling unit.

(c) **Applicability.** When an application is submitted that includes both (1) the construction of two dwelling units under this section and (2) other redevelopment work that is not integral to creation of a new dwelling unit and would generally require discretionary review, only the

NOT YET ADOPTED

portions required for construction of dwelling units shall be reviewed ministerially. In addition, this section shall not apply in any of the following circumstances:

- (1) Parcels described California Government Code Section 65913.4, subdivisions (a)(6)(B) through (a)(6)(K) inclusive. Such parcels include, for example, parcels located in wetlands, in very high fire severity zones (unless the site has adopted certain fire hazard mitigation measures), and in special flood hazard areas or regulatory floodways (unless the site meets certain federal requirements for development).
- (2) Parcels on which an owner of residential real property has exercised the owner's rights under state law to withdraw accommodations from rent or lease within the past 15 years.
- (3) The development would require alteration or demolition of any of the following types of housing
 - (A) Housing that is subject to a recorded covenant, ordinance, or law that restricts rents to levels affordable to persons and families of moderate, low, or very low income.
 - (B) Housing that is subject to any form of rent or price control through a public entity's valid exercise of its police power.
 - (C) Housing that has been occupied by a tenant in the last three years.
- (4) The development would result in the demolition of more than 25 percent of the existing exterior structural walls of a site that has been occupied by a tenant in the last three years.
- (5) The development is located within a historic district or property included on the State Historic Resources Inventory, as defined in California Public Resources Code Section 5020.1, or within a site that is designated or listed on the City's historic inventory.
- (6) The building official finds that the development would have a specific, adverse impact on public health and safety or the physical environment that cannot be feasibly mitigated or avoided.

(d) Application Process.

- (1) The Director is authorized to promulgate regulations, forms, and/or checklists setting forth application requirements for the development of dwelling units under this section.
- (2) The City shall ministerially approve or disapprove an application pursuant to this section.

(e) Development Standards.

- (1) A project proposing two dwelling units on a parcel in the R-1 or RE districts shall be subject to the development standards set forth in Chapters 18.12 and 18.10, respectively except as provided herein.
- (2) All construction pursuant to this section shall comply with objective design standards adopted by the City Council. However, an applicant seeking to deviate from the objective design standards (except to the extent necessary to construct

NOT YET ADOPTED

a unit of 800 square feet) may elect to submit an application under the base requirements of Chapters 18.10, or 18.12, including, if applicable, Single Family Individual Review.

- (3) If the application of any development standard or design standard would necessarily require that one or more proposed units be less than 800 square feet, such standard shall be relaxed to the minimum extent necessary to allow construction of a unit or units of at least 800 square feet. The Director may publish regulations governing the order in which objective standards shall be waived or relaxed in such circumstances.
- (4) Setbacks from side and rear property lines, including street-side property lines, shall be no less than four feet, except in the case of existing non-complying structures or structures reconstructed in the same location and to the same dimensions as an existing structure, in which case existing setbacks less than four feet may be maintained.
- (5) Off-street parking shall be provided pursuant to Chapters 18.52 and 18.54.
- (6) In the event that a project is proposed on a site that has been subject to an Urban Lot Split under Chapter 21.10, and the project would result in three or more detached units across the two parcels created by the urban lot split, any new units shall not exceed 800 square feet.
- (7) Accessory structures, such as garages and shed are permitted consistent with the provisions of the zoning district; however, no accessory structure shall have a floor area exceeding 500 square feet.

(f) General Requirements.

- (1) A maximum of two units may be located on any parcel that is created by an Urban Lot Split under Chapter 21.10. Accessory dwelling units and junior accessory dwelling units shall not be permitted on any such parcel already containing two units.
- (2) On parcels that are not the result of an Urban Lot Split under Chapter 21.10, accessory dwelling units may be proposed in addition to the primary dwelling unit or units, consistent with Chapter 18.09, provided, however, that ADUs associated with projects proceeding under this Section shall not receive any exemption from Floor Area Ratio except to the minimum extent required by California Government Code Section 65852.2.
- (3) A rental of any unit created pursuant to this Section shall be for a term longer than 30 consecutive days.
- (4) For residential units connected to an onsite wastewater treatment system, a percolation test completed within the last 5 years, or, if the percolation test has been recertified, within the last 10 years.
- (5) Each unit shall have a permanent street address.
- (6) The owner and all successors in interest in the subject property shall agree to participate in any City survey of properties that have constructed dwelling units pursuant to this Section.

NOT YET ADOPTED

(g) **Effective Dates.** This section shall remain in effect until such time as Government Code Section 65852.21 is repealed or superseded or its requirements for ministerial approval of no more than two units on a single family zoned lot are materially amended, whether by legislation or initiative, at which time this section shall become null and void.

SECTION 16. Chapter 21.10 (Urban Lot Splits) of Title 21 (Subdivisions and Other Divisions of land) of the Palo Alto Municipal Code is added to read as follows:

Chapter 21.10
PARCEL MAPS FOR URBAN LOT SPLITS IN SINGLE-FAMILY ZONES

Section 21.10.010 Purpose

Section 21.10.020 Definitions

Section 21.10.030 Applicability

Section 21.10.040 General Requirements

Section 21.10.050 Application and Review of an Urban Lot Split

Section 21.10.060 Effective dates

Section 21.10.010 Purpose

This chapter sets forth special regulations applicable to the subdivision of a single family lot in the R-1 district (and R-1 subdistricts) or R-E district into two new lots, pursuant to California Government Code Section 66411.7 (SB 9, 2021).

Section 21.10.020 Definitions

As used in this chapter:

- (a) “Acting in concert” means pursuing a shared goal to split adjacent lots pursuant to an agreement or understanding, whether formal or informal.
- (b) “Specific, adverse impact” means a significant, quantifiable, direct, and unavoidable impact, based on objective, identified written public health or safety or physical environmental standards, policies, or conditions as they existed on the date the application was deemed complete. Inconsistency with the zoning ordinance or general plan land use designation shall not constitute a specific, adverse, impact.
- (c) “Unit” means any dwelling unit, including, but not limited to, a unit or units created pursuant to Section 18.42.180, a primary dwelling unit, an accessory dwelling unit, or a junior accessory dwelling unit.
- (d) “Urban Lot Split” means the subdivision of an existing legal parcel in the R-1 district (and R-1 subdistricts) or R-E district to create no more than two new parcels of approximately equal area, pursuant to this Chapter and California Government Code Section 66411.7.

Section 21.10.030 Applicability

The provisions of this chapter shall apply only to lots in the R-1 district (and R-1 subdistricts) or R-E zone district. An Urban Lot Split is not available in any of the following circumstances:

NOT YET ADOPTED

- (a) A parcel described California Government Code Section 65913.4, subdivisions (a)(6)(B) through (a)(6)(K) inclusive. Such parcels include, for example, parcels located in wetlands, in very high fire severity zones (unless the site has adopted certain fire hazard mitigation measures), and in special flood hazard areas or regulatory floodways (unless the site meets certain federal requirements for development).
- (b) A parcel on which an owner of residential real property has exercised the owner's rights under state law to withdraw accommodations from rent or lease within the past 15 years.
- (c) A parcel that was created by prior exercise of an Urban Lot Split.
- (d) A parcel adjacent to a parcel that was created by prior exercise of an Urban Lot Split by the owner, or a person acting in concert with the owner of the parcel sought to be split.
- (e) The Urban Lot Split would require alteration or demolition of any of the following types of housing
 - (1) Housing that is subject to a recorded covenant, ordinance, or law that restricts rents to levels affordable to persons and families of moderate, low, or very low income.
 - (2) Housing that is subject to any form of rent or price control through a public entity's valid exercise of its police power.
 - (3) Housing that has been occupied by a tenant in the last three years.
- (f) The Urban Lot Split is located within a historic district or property included on the State Historic Resources Inventory, as defined in California Public Resources Code Section 5020.1, or within a site that is designated or listed on the City's historic inventory.
- (g) The building official finds that the development would have a specific, adverse impact on public health and safety or the physical environment that cannot be feasibly mitigated or avoided.

Section 21.10.040 General Requirements

- (a) The minimum size for a parcel created by an Urban Lot Split is 1,200 square feet.
- (b) The lots created by an Urban Lot Split must be of approximately equal area, such that no resulting parcel shall be smaller than 40 percent of the lot area of the original parcel proposed for subdivision.
- (c) Each parcel created by an Urban Lot Split shall adjoin the public right of way by means of a minimum fifteen foot street frontage.
- (d) Where existing dwelling units on the property are to remain, no lot line may be created under this Chapter in a manner that would bisect any structure or that would result in more than two dwelling units on any resulting parcel.
- (e) Newly created lot lines shall not render an existing structure noncomplying in any respect (e.g. floor area ratio, lot coverage, parking), nor increase the degree of noncompliance of an existing noncompliant structure.
- (f) Each parcel shall comply with any objective lot design standards for Urban Lot Splits adopted by the City Council.
- (g) The Director of Planning shall determine the appropriate fee required for an application for parcel map for an Urban Lot Split, which may be the fee currently established for a Preliminary Parcel Map or Parcel Map.

NOT YET ADOPTED

Section 21.10.050 Application and Review of an Urban Lot Split

- (a) The director of planning is authorized to promulgate regulations, forms, and/or checklists setting forth application requirements for a parcel map for an Urban Lot Split under this Chapter. An application shall include an affidavit from the property owner, signed under penalty of perjury under the laws of California, that:
 - (1) The proposed urban lot split would not require or authorize demolition or alteration of any of the housing described in Section 21.10.030, subdivision (e).
 - (2) The proposed urban lot split is not on a parcel described in Section 21.10.030.
 - (3) The owner intends to occupy one of the housing units located on a lot created by the parcel map as their principal residence for a minimum of three years from the date of the recording of the parcel map.
 - (4) The rental of any unit on the property shall be for a term longer than 30 consecutive days.
 - (5) The resulting lots will be for residential uses only.
- (b) A parcel map for an Urban Lot Split must be prepared by a registered civil engineer or licensed land surveyor in accordance with Government Code sections 66444 – 66450 and this Chapter. Unless more specific regulations are adopted by the director of planning, the parcel map shall be in the form and include all of the information required of a Preliminary Parcel Map by Chapter 21.12, as well as any additional information required of a Parcel Map by Chapter 21.16. In addition, the face of the Parcel Map shall contain a declaration that:
 - (1) Each lot created by the parcel map shall be used solely for residential dwellings.
 - (2) That no more than two dwelling units may be permitted on each lot.
 - (3) That rental of any dwelling unit on a lot created by the parcel map shall be for a term longer than 30 consecutive days.
 - (4) A lot created by a parcel map under this Chapter shall not be further subdivided.
- (c) Upon receipt of a parcel map for an Urban Lot Split, the director of planning shall transmit copies to the city engineer, chief building official, director of utilities, chief of police, fire chief, director of transportation, and such other departments of the city, and any other agencies, as may be required by law or deemed appropriate.
- (d) The director of planning shall cause a notice of the pending application to be posted at the site of the proposed Urban Lot Split and for notice to be mailed to owners and residents of property within 600 feet of the property.
- (e) The director of planning shall ministerially review and approve a parcel map for Urban Lot Split if they determine that the parcel map application meets all requirements of this Chapter. The director of planning shall deny a parcel map application that does not meet any requirement of this Chapter.

Section 21.10.060 Effective Dates.

This chapter shall remain in effect until such time as Government Code Section 66411.7 is repealed or superseded or its requirements for ministerial approval of an Urban Lot Split on a

NOT YET ADOPTED

single family zoned lot are materially amended, whether by legislation or initiative, at which time this chapter shall become null and void.

SECTION 17. Section 18.13.040 (Development Standards) of Chapter 18.13 (Multiple Family Residential (RM-20, RM-30 and RM-40) Districts) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

18.13.040 Development Standards

(a) Site Specifications, Building Size and Bulk, and Residential Density

[. . .]

Table 2
Multiple Family Residential Development Table

	RM-20	RM-30	RM-40	Subject to regulations in:
[. . .]	[. . .]	[. . .]	[. . .]	[. . .]
Maximum Floor Area Ratio (FAR) ⁽⁴⁾	0.5:1	0.6:1	1.0:1	<u>18.13.045</u>
[. . .]	[. . .]	[. . .]	[. . .]	[. . .]

SECTION 18. Section 18.13.045 (Increased Floor Area for Housing Developments of 3-10 Units) of Chapter 18.13 (Multiple Family Residential (RM-20, RM-30 and RM-40) Districts) of Title 18 (Zoning) of the Palo Alto Municipal Code is added to read as follows:

18.13.045 Increased Floor Area for Housing Developments of 3-10 Units

- (a) A housing development project, as defined in California Government Code Section 65589.5, that is in an RM-20, RM-30 or RM-40 District shall be allowed to increase its floor area ratio as follows:
 - (i) A housing development project of three to seven units shall have a maximum floor area ratio of 1.0:1.
 - (ii) A housing development project of eight to ten units shall have a maximum floor area ratio of 1.25:1.
- (b) This section shall not apply within a historic district or property included on the State Historic Resources Inventory, as defined in California Public Resources Code Section 5020.1, or within a site that is designated or listed on the City's historic inventory.

NOT YET ADOPTED

SECTION 19. Section 18.16.060 (Development Standards) of Chapter 18.16 (Neighborhood, Community, and Service Commercial (CN, CC and CS)) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

(a) Exclusively Non-Residential Uses

[. . .]

(b) Mixed Use and Residential

Table 4 specifies the development standards for new residential mixed use developments and residential developments. These developments shall be designed and constructed in compliance with the following requirements and the context-based design criteria outlined in Section [18.16.090](#), provided that more restrictive regulations may be recommended by the architectural review board and approved by the director of planning and development services, pursuant to Section [18.76.020](#).

Table 4
Mixed Use and Residential Development Standards

	CN	CC	CC(2)	CS	Subject to regulations in Section
[. . .]	[. . .]	[. . .]	[. . .]	[. . .]	[. . .]
Maximum Residential Floor Area Ratio (FAR)	0.5:1 (4)	See sub-section (e) below	0.6:1	0.6:1	18.16.065
Maximum Nonresidential Floor Area Ratio (FAR)	0.4:1		2.0:1	0.4:1	
Total Mixed Use Floor Area Ratio (FAR)	0.9:1 (4)		2.0:1	1.0:1	18.16.065
[. . .]	[. . .]	[. . .]	[. . .]	[. . .]	[. . .]

[. . .]

SECTION 20. Section 18.16.065 (Increased Floor Area for Housing Developments of 3-10 Units) of Chapter 18.16 (Neighborhood, Community, and Service Commercial (CN, CC and CS)) of Title 18 (Zoning) of the Palo Alto Municipal Code is added to read as follows:

NOT YET ADOPTED

18.16.065 Increased Floor Area for Housing Developments of 3-10 Units

- (a) A housing development project as defined in paragraph (2) of subdivision (h) of Section 65589.5 of the Government Code of the State of California that is in a CN, CC or CS District shall be allowed to increase its floor area ratio as follows:
- (i) A housing development project of three to seven units shall have a maximum floor area ratio of 1.0:1.
 - (ii) A housing development project of eight to ten units shall have a maximum floor area ratio of 1.25:1.
- (b) This bonus shall not apply within a historic district or property included on the State Historic Resources Inventory, as defined in Section 5020.1 of the Public Resources Code of the State of California, or within a site that is designated or listed as a city or county landmark or historic property or district pursuant to a city or county ordinance.
- (c) For mixed use development, total mixed use floor area ratio shall be increased to the extent necessary to accommodate a non-residential floor area ratio of 0.4:1 for retail and retail-like uses only.

SECTION 21. Section 18.18.060 (Development Standards) of Chapter 18.18 (Downtown Commercial (CD) District) of Title 18 (Zoning) of the Palo Alto Municipal Code is amended to read as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

(a) Exclusively Non-Residential Use

[. . .]

(b) Mixed Use and Residential

Table 3 specifies the development standards for new residential mixed use developments and residential developments. These developments shall be designed and constructed in compliance with the following requirements and the context-based design criteria outlines in Section 18.18.110, provided that more restrictive regulations may be recommended by the architectural review board and approved by the director of planning and development services, pursuant to Section 18.76.020:

TABLE 3
MIXED USE AND RESIDENTIAL DEVELOPMENT STANDARDS

	CD-C	CD-S	CD-N	Subject to regulations in Section:
[. . .]	[. . .]	[. . .]	[. . .]	[. . .]
Maximum Residential Floor Area Ratio (FAR)	1.0:1 ⁽³⁾	0.6:1 ⁽³⁾	0.5:1 ⁽³⁾	<u>18.18.065,</u> <u>18.18.070</u>

NOT YET ADOPTED

Maximum Nonresidential Floor Area Ratio (FAR)	1.0:1 ⁽³⁾	0.4:1	0.4:1	
Total Floor Area Ratio (FAR) ⁽³⁾	2.0:1 ⁽³⁾	1.0:1 ⁽³⁾	0.9:1 ⁽³⁾	<u>18.18.065,</u> 18.18.070
[. . .]	[. . .]	[. . .]	[. . .]	[. . .]
<p>Footnotes:</p> <p>(1) Required usable open space: (1) may be any combination of private and common open spaces; (2) does not need to be located on the ground (but rooftop gardens are not included as open space except as provided below); (3) minimum private open space dimension 6; and (4) minimum common open space dimension 12</p> <p>For CN and CS sites on El Camino Real, CS sites on San Antonio Road between Middlefield Road and East Charleston Road and CC(2) sites that do not abut a single- or two-family residential use or zoning district, rooftop gardens may qualify as usable open space and may count as up to 60% of the required usable open space for the residential component of a project. In order to qualify as usable open space, the rooftop garden shall meet the requirements set forth in Section 18.40.230.</p> <p>[. . .]</p> <p>(3) FAR may be increased with transfers of development, <u>increased floor area for housing development projects with 3-10 residential units</u> and/or bonuses for seismic and historic rehabilitation upgrades, not to exceed a total site FAR of 3.0:1 in the CD-C subdistrict or 2.0:1 in the CD-S or CD-N subdistrict.</p> <p>[. . .]</p> <p>(5) The weighted average residential unit size shall be calculated by dividing the sum of the square footage of all units by the number of units. For example, a project with ten 800-square foot 1-bedroom units, eight 1,200-square foot 2-bedroom units, and two 1,800-square foot 3-bedroom units would have a weighted average residential unit size of $((10 \times 800) + (8 \times 1,200) + (2 \times 1,800)) \div (10 + 8 + 2) = 1,060$ square feet.</p>				

[. . .]

SECTION 22. Section 18.18.065 (Increased Floor Area for Housing Developments of 3-10 Units) of Chapter 18.18 (Downtown Commercial (CD) District) of Title 18 (Zoning) of the Palo Alto Municipal Code is added to read as follows:

18.16.065 Increased Floor Area for Housing Developments of 3-10 Units

- (a) A housing development project as defined in paragraph (2) of subdivision (h) of Section 65589.5 of the Government Code of the State of California that is in a CD Districts shall be allowed to increase its floor area ratio as follows:
- (i) A housing development project of three to seven units shall have a maximum residential floor area ratio of 1.0:1.
 - (ii) A housing development project of eight to ten units shall have a maximum residential floor area ratio of 1.25:1.

NOT YET ADOPTED

- (b) This bonus shall not apply within a historic district or property included on the State Historic Resources Inventory, as defined in Section 5020.1 of the Public Resources Code of the State of California, or within a site that is designated or listed as a city or county landmark or historic property or district pursuant to a city or county ordinance.
- (c) For mixed use development in the CD-N and CD-S subdistricts, total floor area ratio shall be increased to the extent necessary to accommodate a non-residential floor area ratio of 0.4:1 for retail and retail-like uses only.
- (d) In no event shall total floor area ratio exceed 3.0:1 in the CD-C subdistrict, or 2.0:1 in the CD-N and CD-S subdistricts.

SECTION 23. Section 16.65.025 (Exemptions) of Chapter 16.65 (Citywide Affordable Housing Requirements) of Title 16 (Building Regulations) of the Palo Alto Municipal Code is amended to read as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

16.65.025 Exemptions.

The following development projects are exempt from the provisions of this chapter:

- (a) Residential projects consisting of the construction of one or two units, other than accessory dwelling units and junior accessory dwelling units, unless: (1) included in a mixed use project, (2) constructed on a lot created by an Urban Lot Split under Chapter 21.10; or (3) resulting in a two-family use on a single-family zoned lot;
- (b) Accessory dwelling units, unless: (1) constructed on a lot created by an Urban Lot Split under Chapter 21.10; or (2) the accessory dwelling unit is constructed on a single-family zoned lot containing a two-family use;
- (c) Junior accessory dwelling units and, notwithstanding subsection (b), all accessory dwelling units less than 750 square feet;

[. . .]

SECTION 24. If any section, subsection, clause or phrase of this Ordinance is for any reason held to be invalid, such decision shall not affect the validity of the remaining portion or sections of the Ordinance. The Council hereby declares that it should have adopted the Ordinance and each section, subsection, sentence, clause or phrase thereof irrespective of the fact that any one or more sections, subsections, sentences, clauses or phrases be declared invalid.

SECTION 25. The City Council finds that this Ordinance is statutorily exempt from the requirements of the California Environmental Quality Act (CEQA) for the following reasons. Under Government Code Sections 66411.7(n) and 65852.21(j), an ordinance adopted to implement the requirements of SB 9 shall not be considered a project under CEQA. Additional sections of this ordinance implementing SB 478 are exempt pursuant to Section 15061 of the State CEQA Guidelines because they simply reflect pre-emptive state law that will be effective January 1,

NOT YET ADOPTED

2022. As such, this ordinance does not reflect a change from the status quo and it therefore can be seen with certainty that there is no possibility that the ordinance will have a significant effect on the environment.

SECTION 26. This ordinance shall be effective on the thirty-first day after the date of its adoption.

INTRODUCED:

PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

City Clerk

Mayor

APPROVED AS TO FORM:

APPROVED:

Assistant City Attorney

City Manager

Director of Planning
and Development Services



City of Palo Alto City Council Staff Report

(ID # 13770)

Meeting Date: 1/24/2022

Title: Discuss Polling Results, Analysis, and Community and Stakeholder Engagement Plan; Recommend Further Refined Parameters for a Possible Local Tax Ballot Measure for November 2022 Election (Business License Tax and Utility Tax Proposals); and Direct Staff on Related Items such as Community and Stakeholder Engagement Plan

From: City Manager

Lead Department: Administrative Services

EXECUTIVE SUMMARY

A staff report for this item will be published as part of the next packet released on January 20, 2022 which will include a summary of the Finance Committee discussion on January 18, 2022 and the Committee recommendations for Council consideration.

This report is issued to transmit the information intended to be discussed for this City Council agenda item. The Finance Committee has received and reviewed (12/7/21) / will review (1/18/22) a significant volume of information regarding potential local revenue generating measures for the November 2022 ballot. **This City Council agenda item will review these prior discussions, the material presented at these prior committee meetings, and the Finance Committee recommendations.** Below are links to the materials:

December 7, 2021 Finance Committee: [Agenda Item #2, Staff Report #13728](#) (begins on page 55)

- Modeling of two methods to replace the General Fund Equity Transfer (GFET) at risk due to legal challenges

January 18, 2022 Finance Committee: [Agenda Item #1, Staff Report #13875](#) (begins on page 3)

- Refined modeling of a potential business tax at a monthly rate of \$0.05 to \$0.20 per square foot, potential exemptions, and escalators for rate of tax
- Results from the initial round of polling conducted in November/December 2021 related to potential business license and utility tax proposals
- Community and Stakeholder Engagement Plan

BACKGROUND

City Council's November 8th direction to staff and the Finance Committee:

- A. *Direct staff to model a business license tax at monthly rates of \$0.05 to \$0.20 per square foot, with a preference for no sunset and an annual escalator, and with thresholds for square footage size and possible exemptions for:*
 - i. *Small retail, measured by square footage;*
 - ii. *Grocery stores;*
 - iii. *No exemptions;*
- B. *Direct staff to model two methods to replace the General Fund Equity Transfer (GFET) at risk in the Green case:*
 - i. *Seek voter approval in modifying the 2009 GFET formula to transfer a percentage of gas utility gross revenues;*
 - ii. *Distribute the change across gas and electric as an increase in the percentage of Utility Users Tax (UUT); and*
- C. *Direct staff to execute initial round of polling (Attachment A), delegate review of the polls to the Finance Committee, pending availability to stay on the workplan timeline, and incorporate the Council's feedback of the poll, including the modeling assumptions identified in Parts A and Parts B of the motion; and*
- D. *Remove the parcel tax as an option from the polling questions.*

MOTION PASSED 6-1 (Tanaka no)

DISCUSSION

Summary of December 7, 2021 Finance Committee: Utility On-Bill Tax

Staff presented updated analysis and other information for a potential utility on-bill tax at the Finance Committee's December 7, 2021 meeting ([CMR 13728](#)). After reviewing the analysis the *Finance Committee unanimously recommended that Council direct staff to pursue preparation of a utility tax that replaces the General Fund Equity Transfer (GFET) at risk in the Green case with the following parameters:*

- *Using a percentage of utility revenue methodology rather than changing the UUT;*
- *Focusing cost recovery on the gas utility only; and*
- *Relying on polling to determine whether to cap growth in the utility tax.*

The Finance Committee and staff recognized that some of these questions would be further informed by the initial round of polling, and with the information presented Council can review the initial polling results and modify this recommendation if necessary.

A summary of the staff analysis for the two approaches to replace GFET revenue is below:

Method 1: Distribute the change across gas and electric as an increase in the percentage of Utility Users Tax (UUT)

Method 2: Seek voter approval in modifying the 2009 GFET formula to transfer a percentage of gas utility gross revenues

Although both achieve the goal of recovering 100 percent of the GFET revenue currently at risk in the *Green* case, differences in revenue volatility (stability per the EASE Framework), distribution of tax between residential and non-residential customers, and impacts on sustainability efforts are key differences between these two approaches. Highlights of these key differences are summarized below:

	Method 1: Increase Gas and Electric UUT	Method 2: Percent of Gas Utility Revenue
Recovers GFET revenue currently at risk	Both approaches recover 100% of GFET revenue currently at risk	
Ease of explanation	Changes practice, more complex	Simple, confirms existing practice
Revenue growth (Increase in annual revenue from FY 2023 to FY 2025)	Increase from \$7.34 million to \$8.76 million	Increase from \$7.34 million to \$8.61 million
	Note: due to expected utility cost and rate increases in FY 2023 to FY 2025, either of these methods would increase the GFET significantly faster than the current GFET methodology, which only is forecasted to increase from \$7.34 million to \$7.9 million through FY 2025.	
EASE (Stability): Revenue volatility¹	+/- 4% to 6% variation in revenue each year based on utility use	+/- 10% to 15% variation in revenue each year based on utility use
EASE (Equity): Percentage of revenue collected from business	Increases share of tax collection on business and non-residential taxpayers (20% residential, 80% business / non-residential)	No change in share of revenue collected from business and non-residential from current GFET methodology (40% residential, 60% business / non-residential)
EASE (Economic Impact): Impact on sustainability efforts	Decreases cost-effectiveness of building and vehicle electrification	No impact to sustainability efforts
EASE (Stability): Impact of S/CAP goals on revenues	Achieving building and vehicle electrification goals outlined in April 2021 S/CAP impact analysis results in little change in revenue.	Achieving building and vehicle electrification goals outlined in April 2021 S/CAP impact analysis results in \$3.9 million (46%) decrease in revenue.

Staff found a few notable differences between Method 1, modifying the UUT rate, and Method 2, transferring a percentage of gas utility revenues. Method 2 was easier to explain. Method 1 was less volatile, collected a higher proportion of tax from businesses than Method 2, and decreased the cost-effectiveness of building electrification.

¹ Based on gas / electric sales revenue variations from projections over the last five years

Further on relationship to the City's Sustainability and Climate Action Plan (S/CAP) goals, Method 1 was significantly less affected by major shifts in electric and gas use associated with long-term S/CAP goals. That said, this is a longer term revenue stability issue that could be solved later as part of a future year S/CAP-related ballot measure. In this context, if an option were to not replace the gas GFET while continuing the electric GFET, a similar disincentive for electrification could be created.

Both approaches increased the amount of revenue transferred to the General Fund at a faster rate than the current GFET approach. The current GFET escalates at roughly 2.5% per year, while utility rates are expected to increase at a higher rate in the next few years. If Council wanted to limit the growth of either tax method to be more consistent with the rate of growth of the current GFET methodology, some alternatives were discussed in the Finance Committee report (Attachment D), in the section titled "Revenue Growth and Volatility of Various Utility Tax Methods vs. Current GFET."



City of Palo Alto City Council Staff Report

(ID # 13864)

Report Type: Action Items

Meeting Date: 1/24/2022

Summary Title: Council Review of Changes to Height Transitions

Title: Public Hearing: Adoption of Ordinance Clarifying Ambiguities in Height Transitions and Amending the Setback for the RM-40 Zone District

From: City Manager

Lead Department: Planning and Development Services

Recommendation:

Staff recommends that Council consider proposed changes to height transitions and other development standards (Attachment A), take public comment, and adopt the ordinance.

Staff will return to Council at a future hearing with changes to objective design standards and other zoning regulations based on feedback from the Council at previous meetings. These documents would modify Title 18 (Zoning) of the Palo Alto Municipal Code (PAMC).

Executive Summary:

The objective standards project aims to respond to State law by making changes to the Zoning Ordinance (Title 18) to transform subjective findings and context-based design criteria into objective design standards and streamline other Sections of Title 18 to encourage housing production. This report is a next step in the Council's review of objective standards, based on feedback received on October 4 and November 8, 2021.

The issue of height transition development standards is tangential to the objective standards project. However, it was included in the preliminary ordinance, reviewed by the Planning & Transportation Commission (PTC), as a clarifying update to improve usability of the code. This report and draft ordinance is the first of two ordinances expected in the first half of the year as part of the objective standards project.

This report provides an overview of height transitions, including how they apply to different districts and uses. It presents two key issues. First, that the language governing height transitions varies across districts and is sometimes ambiguous; this has resulted in the code

being interpreted and implemented differently over time. Second, community members have expressed concern that these lower height limits generally do not apply to the RM-40 district which is a high-density district.

Staff recommends a moderated approach to modifying the ambiguous code to codify a clear objective standard and avoid creating non-complying facilities. This moderated approach sets the horizontal measurement at the far end of the range—150 feet—but allows for reduction by the Planning Director, upon recommendation by the ARB. This avoids creating non-complying facilities for previously- and legally-approved projects and allows applicants to ask the ARB to take a more nuanced look at height transitions based on context.

Additionally, this report proposes changes to the RM-40 front and side setbacks to be consistent with all RM zones and to transform the subjective variable setbacks to objective standards. This change is being made at this time since it was a straightforward request by the Council and relates to the development standards tables already being modified herein.

A near-future second ordinance will address all other aspects of the objective standards project, based on feedback received from the Council on October 4 and November 8, 2021.

Background:

The California State legislature has made several changes to State housing laws in recent years to streamline housing approvals. These steps include reducing the amount of subjective discretion jurisdictions have to deny or reduce the density of residential and residential mixed-use projects. Instead, in many contexts, jurisdictions must rely solely on objective design and development standards. The objective standards project aims to respond to State law by making changes to the Zoning Ordinance (Title 18).

Relationship to State Housing Laws

SB330 Permit Review

Effective January 1, 2020, SB330 made several changes to existing State housing law, including the Housing Accountability Act and Permit Streamlining Act. The two most notable aspects of the bill for this report's purposes are as follows:

1. No Loss in Intensity of Housing: SB330 prohibits jurisdictions from enacting development policies, standards or conditions that would change current zoning and land use designations where housing is an allowable use. In such cases, jurisdictions cannot lessen the intensity of housing—such as reducing height, density, or floor area ratio, requiring new or increased open space, lot size, setbacks, or frontage, or limiting maximum lot coverage; effectively, this clause prohibits downzoning, though the City

may rebalance density between districts (Gov. Code 66300(b)(1)(A)); and

2. Uniformly Verifiable Standards: SB330 defines the meaning of “objective” as “involving no personal or subjective judgment by a public official and being uniformly verifiable by reference to an external and uniform benchmark or criterion available and knowable by both the development applicant or proponent and the public official” (Gov. Code 65589.5 (h)(8). “Housing development projects” undergoing streamlined review are only required to meet objective standards. Therefore, standards that are ambiguous may not be considered objective standards, requiring compliance.

Summary of Public Hearings

The topic of height transitions was discussed with the Architectural Review Board (ARB) on April 15, 2021 and Planning and Transportation Commission (PTC) on March 10 and June 9, 2021, as part of the objective standards project.

ARB Review

At its April 1, 2021 meeting, the ARB voted to recommend City Council approval of the objective standards project in a 4-1 vote, following 13 meetings with the full ARB or Ad Hoc Committee. Additionally, the ARB discussed two aspects of height transition requirements between lower and higher density zoning districts during a study session on April 15th. First, the ARB discussed proposed text modifications recommended by City staff and later, by the PTC. Second, the ARB held a more holistic discussion of height transitions, focused on the best ways to regulate height and massing across districts in order to mitigate potential impacts while maintaining architectural quality and development feasibility.

PTC Review

At its June 9, 2021 meeting, the PTC made a motion to recommend that City Council adopt the objective standards project on a 4-1-1 vote, following two study sessions to review the objective standards. The PTC unanimously supported the draft objective design standards.

However, several Commissioners had concerns about the issue of height transitions between lower and higher density districts. Public comments focused on concerns about modifications to the height transition language across several of district regulations’ chapters. Specifically, community members expressed concern that the existing code does not require height reductions for new projects adjacent to RM-40 districts. These participants were concerned about privacy, light, and air impacts. As described in the analysis below, height transitions are not currently required for projects adjacent to RM-40 zoned sites; this is because the RM-40 is already a high-density district with some of the tallest permitted heights in the city at 40 feet. Therefore, modifications in the draft ordinance did not include changes that would impact the RM-40 district.

Community Webinar

At the request of the PTC, staff held a community webinar on July 19, 2021, to discuss the topic of existing height transitions and proposed modifications. Approximately 27 residents attended the online discussion. Many participants advocated for adding a height transition standard for the RM-40 district and generally for light, air, and privacy protections.

Records from previous meetings described above and the other 13 ARB meetings and 3 PTC meetings focused on objective standards can be found on the project webpage: bit.ly/ObjectiveStandards

City Council

The City Council reviewed the objective standards project over the course of two meetings: October 4 and November 8, 2021 (continued without discussion from September 27 and October 25, respectively). Given the public interest in the topic of height transitions, staff proposed to maintain the status quo and did not include the proposed changes to height transitions in the draft ordinance to the Council. As part of its November 8th motion, the Council voted 5-2 to include it (see item G in Table 1 below) along with other standards that would increase privacy and reduce the height of new buildings when adjacent to lower height residences.

As a result, staff has revived amendments to height transition standards and included them here in a stand-alone ordinance that only addresses development standards' tables in Title 18. In response to community members and decision-makers' requests, staff proposed a more moderated interpretation of ambiguous language.

Still, staff recommends revisiting the broader topic of height transitions as a substantive policy discussion in the near future, through the Housing Element update process. At that time, the City could consider more nuanced approaches that balance supporting high-density housing in appropriate locations with privacy/light/air access for existing residential uses.

Table 1 states the November 8th Council motion and identifies when the issue could be taken up: through the draft ordinance in Attachment A as part of this report, or a near future ordinance that brings back objective design standards and revisions to Title 18, or a different process. The table also identifies design-related topics that require work with the ARB to refine. A schedule for community meetings (Motion Item E) will be presented verbally at the Council hearing.

Table 1: November 8, 2021 Council Motion and Next Steps for Amendments

<i>Motion #/Topic</i>	<i>Tonight (January 24th)</i>	<i>Near Future Ordinance</i>	<i>Other</i>
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<i>Motion #/Topic</i>	<i>Tonight (January 24th)</i>	<i>Near Future Ordinance</i>	<i>Other</i>
A. Take Council feedback on overlays and then take to housing element working group and return to Council for further discussion;	n/a	n/a	Referred to Housing Element
B. Direct Staff to retain current Context-Based Design Criteria and Chapter 18 laws for development applications that do not fall under the State housing laws requiring objective standards;		✓	
C. Direct Staff to return with proposed objective standards and intent statements and to provide:		✓	
i. A detailed side-by-side comparison of the existing Context-Based Design Criteria and the proposed new laws;		✓	
ii. Adoptable changes to existing and proposed laws that would provide standards for privacy and other protections for all residents, regardless of their zones. Regarding privacy, to come back with stronger protections for elevated floors looking into neighboring lots. Stronger definitions of sight lines and how this applies. Address concerns about allowing 15% windows. In RM-40, retain 25' front set back;	✓ (RM-40 setback)	✓ (window and privacy standards)	Pending Review with ARB
iii. Refer to the S/CAP Ad Hoc Committee on the evaluation of approximate GHG impacts in construction;	n/a	n/a	Referred to S/CAP Ad Hoc
D. Prior to any rezoning of PF to workforce housing, the City Council would re-examine the affordability threshold of workforce housing;	n/a	n/a	Defer to Housing Element
E. Hold at least two meetings on the proposed changes before the next Council session for free-form discussion by the general public;	n/a	n/a	February and March
F. In Building Massing / Facades sections where there is a menu of choices, increase the number of required choices per category;		✓	Pending Review with ARB
G. Put in place a temporary height transition backstop. Initial ordinance should include objective height transition language, for example "No part of the building can be more than X' higher than the lowest adjacent building, up to the applicable height limit". Come back with a specific proposal along these lines for adoption this year and Staff can then propose additional amendments in the future; and	✓ (height transition development standards)	✓ (other height transitions standards)	Pending Review with ARB

<i>Motion #/Topic</i>	<i>Tonight (January 24th)</i>	<i>Near Future Ordinance</i>	<i>Other</i>
H. Evaluate and return with strengthened language to use “design standards” instead of “design intents”;		✓	
I. Evaluate whether "decision by director" option throughout objective standards puts those at risk and should be changed /remove; and		✓	
J. On appeal, consider sending directly to Council if required to meet streamlining requirements.		✓	

Additionally, Table 2 begins to respond to City Council comments on the objective standards project during its October 4, 2021 hearing. The table is divided into two sections, based on the level of consensus among Council members:

- Tier 1 issues mentioned or agreed upon by several Council members
- Tier 2 issues mentioned by just one or two Council members

Feedback on these topics will inform changes to the draft ordinance which the City Council will consider in the near-future ordinance.

Table 2: October 4, 2021 Council Discussion and High-Level Responses

<i>Topic</i>	<i>City Staff Response</i>
Tier 1: Issues Mentioned Or Agreed Upon By Several Council Members	
1. Meet Narrowest Application of State Requirements	The draft ordinance herein does not go beyond the minimum requirements of State law. The near-future objective design standards are proposed to apply to a narrow set of “housing development projects” as defined by the State (i.e., 3+ unit multifamily residential, mixed use with 2/3 residential floor area, and supportive/transitional housing).
2. Show Transformation of Design Criteria	City staff and consultants will include additional code citations in the crosswalk of existing context-based design criteria and proposed objective standards previously provided for consideration.
3. Prevent Privacy, Light and Air Impacts	The near-future ordinance and supporting staff report will highlight how the code includes privacy protections, including minimizing sight lines between neighboring properties, limiting shade impacts, daylight plane requirements, and screening through landscaping and fencing. These standards will be reviewed with the ARB prior to the Council’s consideration.
4. Clarify Terms, in Particular “Adjacent”	The near-future ordinance will clarify the terms adjacent and abutting.
5. Clarify Height Transitions	This issue is addressed in this staff report through proposed changes to eliminate ambiguities in the code.

<i>Topic</i>	<i>City Staff Response</i>
Tier 2: Questions/Comments Posed by Just One or Two Council Members	
6. Applicability to Faith-Based Institutions	Most faith-based institutions are located in R-1 districts that do not allow multi-family housing. However, new regulations in Government Code Section 65913.5 allow religious institutions to develop at higher densities. Specifically, religious institutions can develop 100% affordable housing in a residential or mixed use zone at densities up to 20 du/ac (even in an R-1 district), if the project meets objective standards. Currently, draft objective design standards do not apply in the R-1 district, since the existing Context-Based Design Criteria do not apply in the R-1. However, the Council could consider applying the objective design standards in this circumstance.
7. Relationship to Draft Tree Ordinance	City staff will add a reference to the proposed tree ordinance in Title 18, when the former is complete.
8. Standards for Rooftop Open Spaces	Title 18 currently allows rooftop gardens to satisfy a portion of the open space requirement in the CD-C (Downtown),CN/CS (El Camino Real Only) and CC(2) (Cal Ave.) districts. 15-25% of rooftop open space is required to be landscaped. No changes are proposed as part of the draft objective standards ordinance, except to relocate the code section. Rooftop decks may be built in all zones, as long as they are designed under height limit, but can only count toward the open space requirement in the narrow circumstances described above. The Council could consider adding criteria to increase privacy on rooftop decks.
9. Relationship to Historic Resources	Historic or eligible historic resources are unlikely to be able to meet objective standards in the case of rehabilitation proposals. Such projects would go through the typical discretionary review process subject to review and approval by the Historic Resources Board and/or Architectural Review Board. Historic resources on the National, State, or local register (i.e., Class 1 through 4 structures) are not eligible for streamlining under SB35. However, “eligible” but not “listed” historic resources following a State streamlining review process are currently not protected from demolition and new construction. The Council could direct staff to proceed with Comprehensive Plan program 7.1.1 to place properties deemed “eligible” for the National and State registers on the City’s local historic inventory, requiring HRB review and recommendations to Council.
10. Reduce Rooftop Equipment Height	Title 18 currently allows rooftop equipment to exceed height requirements up to 15 feet to allow for mechanical equipment. This standard is currently duplicated in <i>PAMC Sections 18.23.050: Visual, Screening and Landscaping</i> and <i>PAMC Section 18.40.090: Height Exceptions</i> . Proposed code revisions maintain the height exception in Section 18.40.090 only and consolidate screening requirements into a new subsection 18.40.230 so that screening applies to all

<i>Topic</i>	<i>City Staff Response</i>
	projects, not just those adjacent to lower density residential districts. The Council could consider reducing the 15-foot allowance, but this could make several existing structures legal non-conforming.
11. Relationship to Baylands Master Plan	Objective design standards would apply to ROLM-zoned sites within the Baylands Master Plan area, since the ROLM district allows multifamily housing. Discretionary projects require Site and Design Review with the ARB, PTC and Council. The Baylands Master Plan primarily includes subjective guidelines, which can only provide guidance for projects that are only required to meet objective standards.
12. Bird Safe Glass Regulations	The City does not have bird safe glass regulations. However, the City has been enforcing good practices to limit bird strikes through architectural review findings and discretionary review of projects in the Baylands (e.g., auto dealerships with large expanses of glass) and projects with curtain walls (i.e., floor to ceiling windows) throughout the City. Requirements have included fritted glass or similar treatments, and reduced night lighting. The Council may wish to develop an objective standard that codifies this practice.

Discussion

This section provides an overview of height transitions, including how they apply to different districts and uses. It presents two key issues. First, height transitions vary across districts and are sometimes ambiguous. Second, they generally do not apply to the RM-40 district which is a high-density district. The discussion then offers a recommended approach to remove ambiguity and codify a clear objective standard for when height transitions apply, by district and use.

Additionally, this report responds to one component of Motion Cii, identified in Table 1. It recommends a change to the RM-40 front setback to be consistent with all RM zones.

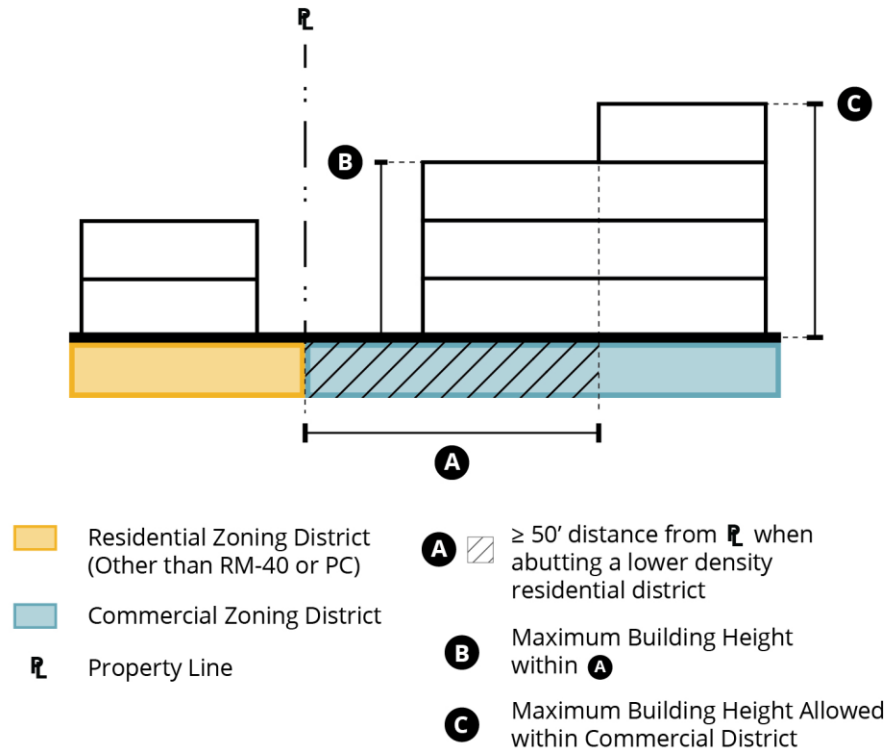
Height Transitions Overview

Title 18 currently includes two sets of height standards within most zoning districts. First, a general height standard. Second, a lower height standard for multifamily and commercial mixed-use districts when located abutting and within a certain horizontal distance from a residential district (typically, excluding RM-40 or PC zones).

Figure 1 illustrates the general concept for how height transitions are regulated in Title 18. Most zoning districts specify the following measurements which correspond to Figure 1:

- (A) horizontal distance from a residential zone;
 (B) reduced height limit within A; and
 (C) standard height limit beyond A.

Figure 1: Prototypical Transitional Height Standard, Existing



Variation by Zoning District

Table 3 reports height standards, by district. (Circled letters in the header row correspond to the labels on Figure 1.) Depending on the district, the height limits can also vary by use (non-residential only vs. residential/mixed use). The table reveals two issues:

(1) Different Zones Identify Different Horizontal Height Transition Zones.

For example, in Downtown, the transition zone is clearly within 150 feet of an abutting residential district; height transitions are required within this horizontal distance, except in the RM-40 and PC zones. The regulations are also clear in the Office/Research/Manufacturing zoning districts where regulations express three layers of height transition: a standard height, a reduced height within 150 feet of a residential district, and a further reduced height within 40 feet of a residential district. However, this district does not specify that the lower height only applies to “abutting” lots. As a result, the standard could theoretically be interpreted to apply

to sites separated by a street or even another lot. In practice, City staff have historically interpreted the standard to only apply to abutting parcels.

In contrast, height limits in the CS/CC/CN mixed use districts and Workforce Housing (WH) overlay are ambiguous. These standards refer to a 50-foot distance, a 150-foot distance and refer to distances relative to the “site” and the “side” of the abutting parcel, further adding to interpretation challenges.

Ambiguity in the regulations are problematic for several reasons. First, they are difficult for City staff and decision-makers to implement consistently. Notably, height standards in these districts have been interpreted and implemented inconsistently over time. This creates a problem for property owners and developers who are considering whether to make significant investments in Palo Alto. Second, ambiguity presents a challenge in light of recent changes in State law which—as described in the description of SB330 above—require standards to be “uniformly verifiable” and “involving no personal or subjective judgement” if the standards are going to be enforced for projects undergoing streamlined review (Gov. Code 65589.5 (h)(8).

(2) The RM-40 district is treated differently than other residential zones.

Reduced heights are many times not required when abutting the RM-40 district. In fact, the code allows taller heights adjacent to the RM-40, up to 50 feet in some districts. Presumably this is because the RM-40 district is considered high density in that it allows heights up to 40 feet. As a result, a 50-foot building adjacent to a site that allows a 40-foot building represents similar massing potential, with only a 10-foot difference in the height allowance. As noted throughout this report, there are many other development standards and performance standards that require modulation of the massing, privacy and light protection, including: daylight plane, setbacks, screening, landscaping, and fencing.

Table 3: Existing Height Standards, by Zoning District

Zoning District (Use)		General <u>Vertical</u> Height Standard [Ⓒ]	Reduced Height Limit	
			Height Within [Ⓑ] <u>Horizontal</u> Feet of Residential Zone	[Ⓐ] <u>Horizontal</u> Feet Distance Threshold
Multifamily Residential Districts				
RM-20		30	N/A	N/A
RM-30		35		
RM-40		40	35, Except RM-40 or PC	50
Commercial/ Mixed Use Districts				
CD-C/ CD-S	Non-Residential Only	50	Max. height of abutting residential district	150
	Residential/Mixed Use	50	40 50, abutting RM-40/PC	

Zoning District (Use)		General Vertical Height Standard [Ⓒ]	Reduced Height Limit	
			Height Within [Ⓑ] Horizontal Feet of Residential Zone	[Ⓐ] Horizontal Feet Distance Threshold
CD-N	Non-Residential Only	25	Max. height of abutting residential district	
	Residential/Mixed Use	35	40 50, abutting RM-40/PC	
CN	Non-Residential Only	25	N/A	N/A
	Residential/Mixed Use	35 (40 on ECR)	35, Except RM-40 or PC	50 or 150 (Ambiguous)
CC/CS	Non-Residential Only	50	35, Except RM-40 or PC	
	Residential/Mixed Use	50	35 50, abutting RM-40/PC	
CC(2)	Non-Residential Only	37	35, Except RM-40 or PC	
	Residential/Mixed Use	37	35 50, abutting RM-40/PC	
Office/Research/Manufacturing Districts				
MOR	Non-Residential Only	50	35 35	40 150
	Residential/Mixed Use	35	N/A	N/A
ROLM	Non-Residential Only	35	25 35	40 150
	Residential/Mixed Use	35	N/A	N/A
ROLM(E)	Non-Residential Only	35	25 35	40 150
	Residential/Mixed Use	30	N/A	N/A
RP	Non-Residential Only	35-40	25 35	40 150
	Residential/Mixed Use	35	30, Except all RMs and similar density PCs	150
Overlay/Other Districts				
PF		50	35, Except PC	150
WH		50	35, Except RM-40 or PC	50 or 150 (Ambiguous)
AH		50	35, Except RM-40 or PC	50, Director may waive
PTOD		40	N/A	N/A

Determining an Appropriate Threshold

If Council agrees the standard should be made unambiguous and objective, the next question is what is the appropriate standard? This is a policy question that needs to balance State law requirements, flexibility for new housing design, and access to light/air/privacy for existing adjacent uses.

The ARB held a study session on April 15, 2021 to discuss height transitions generally and its implications for design. The majority of ARB members agreed with staff's recommendations, outlined in a March 18, 2021 memo¹ to the ARB, as to how to streamline this Code language for ease of interpretation. Board members believed that the height limits and densities in the surrounding context mattered, concluding that the 150-foot threshold is likely too deep in places like Downtown, but that other locations may warrant transition areas in excess of 50 feet. Board members also suggested that setback and daylight plane requirements—which are already codified in Title 18—are better methods for regulating this transition area than a horizontal threshold.

Recommendation

To resolve the ambiguity at this time and respond to community and Council feedback, staff recommends a moderated approach. In the districts with ambiguous language--the CN, CC, CC(2), and CS districts and WH overlay--require a lower height standard abutting and within the 150 horizontal feet (rather than the 50 feet threshold as originally proposed to the PTC), but allow for a reduction up to 50 horizontal feet by the Planning Director, upon recommendation by the ARB.

The draft ordinance also recommends clarifying that the reduced height limit only applies to abutting conditions. This is consistent with how City staff have historically interpreted the standard. The lower height limit is not intended to apply to situations where parcels are separated by another lot or by a street. Most zoning districts with the lower height standard already include this “abutting” condition. However, to bring consistency and eliminate ambiguity across Title 18, the draft ordinance adds the term “abutting” to the lower height standard in the following zones: RM-40, ROLM, AH overlay, and PC.

Staff believes the 150-foot horizontal measurement is supportable under SB330 prohibitions on limited density, since the standard has been interpreted inconsistently over the years. Moreover, development (i.e., building footprint and massing) is still permitted within the 150-foot distance, just at lower limits. No changes are proposed to height limits overall; nor do changes propose extending lower height limits to projects adjacent to a RM-40 zoned site.

¹ bit.ly/HeightTransitionMemo

This moderated approach serves two purposes. First, it avoids creating non-conforming conditions for residential, commercial, and mixed-use projects that were previously approved with standard height limits within 150 feet of a lower density residential district. These legally-approved projects would not be considered non-conforming and would be eligible for modifications, subject to review by the ARB.

Second, it allows for development--most importantly multifamily residential and residential mixed-use projects that are supported by the Comprehensive Plan and Housing Work Plan--to be feasibly developed at the heights and densities permitted by the zoning district. Requiring review by the ARB to reduce the 150-foot threshold allows for the City's qualified architectural reviewers to take a more contextual approach to evaluating height transitions.

The Council could consider reducing heights adjacent to the RM-40 district. However, this would be a substantive policy change to Title 18, beyond the scope of the objective standards project. For residential uses, such a change would need to be evaluated under the "no net loss" provision of the City's Housing Element and State law, since it could reduce developable area for housing projects. The Council could consider reducing heights adjacent to RM-40 for non-residential uses only, which are not regulated by State law.

Notably, qualifying housing development projects that propose using State Density Bonus Law, may seek to use waivers or concessions to exceed the height standard (both the general height standard and the lower standard when adjacent to a lower density residential use). Additionally, staff expects that the Housing Element update process will look at height standards--both overall height limits and these transitional height standards. Further changes are likely to be recommended through that process.

Finally, the near-future objective standards ordinance will further expand privacy, light, and air protections to all residentially zoned properties, based on feedback from the Council and ongoing work with the ARB.

RM-40 Setback Requirements

As noted in Table 1, Motion Item Cii, the Council moved to change the RM-40 front setback from a variable 0-25 feet to a standard 25 feet. This motion item is being taken up here, since it is a straightforward change and modifies the development standards table being modified as part of the height transitions regulations described above. In the same vein, City staff recommend a change to the RM-40 variable side setback standard of 0-16 feet, to a standard 16 feet, consistent with the RM-20 and RM-30 zones.

Staff recommends a clear front setback standard of 20 feet, rather than 25 feet, to be consistent with the RM-20 and RM-30 districts. As part of the Housing Element update, staff expects that some RM-30 zoned parcels will be up-zoned to RM-40. A front setback of 20 feet

will eliminate issues of non-conformity on existing properties and provide a consistent standard for all RM zones. Moreover, the code will still allow for adjustments—above and below 20 feet—based on a recommendation from the ARB and in some cases, to meet special setbacks described on zoning maps. This is important since in more urban conditions, a reduced setback may be more appropriate to maintain a street wall, whereas larger sites in more suburban parts of the city may support deeper landscaped setbacks.

Stakeholder Engagement

As with all citywide projects, the eight (8) ARB hearings and the three (3) PTC hearings were noticed in the Daily Post. The ARB Ad Hoc meetings were not publicly noticed meetings. On January 22nd, March 23rd, May 10th, July 22nd, and September 15th, 2021, staff sent an email to a wide range of architect and consultants that have worked with the City in the recent past on development projects to solicit comments on the draft objective standards; six out of 30 stakeholders provided feedback.

Detailed comments can be found in the October 4, 2021 City Council staff report:

- Public Comments: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/public-letters-to-council/2021/20211004-oct-4/20211004plccs-item-aa1.pdf>
- Stakeholder Comments (Attachment E) : <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2021/10-october/20211004/20211004pccsm-amended-linked.pdf>

Several members of the public addressed the PTC at its June 9, 2021 hearing regarding height transition language, as summarized above. On July 19, 2021, staff held a webinar to discuss the topic of height transitions. Approximately 27 residents attended the online discussion.

Environmental Review

The ordinance revisions represent implementation of adopted plans and policy. Therefore, the revisions are exempt under CEQA and covered by the CEQA documents prepared for the Comprehensive Plan. The project aims to facilitate implementation of State law. The project does not propose to increase development beyond what was analyzed in the Comprehensive Plan.

Attachments:

Attachment12.a: Attachment A: Ordinance Amending Title 18 to Clarify Transitional Height Standards and Update Setbacks for RM-40 Zone District (PDF)

Ordinance No. ____

Ordinance of the Council of the City of Palo Alto Amending Various Chapters of
Title 18 (Zoning) to Clarify Transitional Height Standards and Update Setbacks for
the RM-40 Zone District

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

SECTION 1. Findings and Declarations.


- A. Title 18 (Zoning) of the Palo Alto Municipal Code contains development standards governing the maximum height of structures in close proximity to lower density residential zones. The purpose of these development standards is to ensure the harmonious transition between lower and higher intensity development.
- B. The existing language on height transitions has created confusion among the public, project applicants, and City staff. This confusion, in turn, has resulted in differing interpretations of the law over the years.
- C. The City Council now wishes to clarify the zoning code with respect to height transitions. The clarifications to height transition standards contained in this ordinance are declarative of existing law.

SECTION 2. Section 18.08.030 (References to Districts) of Chapter 18.08 (Designation and Establishment of Districts) of Title 18 (Zoning) is amended as follows (new text underlined):

18.08.030 References to Districts

Reference within this title to residential districts generally and as a grouping, includes all districts identified in this section. Where references are made to more restrictive or less restrictive residential districts, such references shall apply sequentially between the most restrictive and the least restrictive.

Residential District	Restrictive Reference
RE	Most Restrictive
R-1 (20,000)	
R-1 10,000)	
R-1 (8,000)	
R-1 (7,000)	
R-1	

R-2	
<u>RMD</u>	
RM-20	
RM-30	
RM-40	
Least Restrictive	

SECTION 3. Section 18.13.040 (Development Standards) of Chapter 18.13 (Multiple Family Residential (RM-20, RM-30 and RM-40) Districts) of Title 18 (Zoning) is amended as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

18.13.040 Development Standards

(a) Site Specifications, Building Size and Bulk, and Residential Density

The site development regulations in Table 2 shall apply in the multiple-family residence districts, provided that more restrictive regulations may be recommended by the Architectural Review Board and approved by the Director of Planning and Development Services, pursuant to the regulations set forth in [Chapter 18.76](#), performance criteria set forth in [Chapter 18.23](#), and the context-based design criteria set forth in Section [18.13.060](#).

Table 2
Multiple Family Residential Development Table

	RM-20	RM-30	RM-40	Subject to regulations in:
[. . .]	[. . .]	[. . .]	[. . .]	[. . .]
Minimum Setbacks	Setback lines imposed by a special setback map pursuant to Chapter 20.08 of this code may apply			
Front Yard (ft)	20	20	0-25 20 (1)	18.13.040(b)
On arterial roadways (1)	0-20 (1)	0-20 (1)	0-25 (1)	
Interior Side Yards (ft)				
For lots with width of 70 feet or greater	10	10	10	
For lots with width of less than 70 feet	6 feet			
Interior Rear Yards (ft) ³	10	10	10	
Street Side and Street Rear Yards (ft)	16	16	0-16 (2)	

Maximum Height (ft)	30	35	40	
Maximum height for those portions of a site w Within 50 feet of a more restrictive <u>abutting</u> residential district or a site containing a residential use in a nonresidential district			35	<u>18.08.030</u>
[. . .]	[. . .]	[. . .]	[. . .]	[. . .]

Footnotes:

(1) Minimum front setbacks shall be determined by the Architectural Review Board upon review pursuant to criteria set forth in Chapter 18.76 and the context-based criteria outlined in Section 18.13.060. Arterial roadways, do not include residential arterials. In the RM-40 district, lesser setbacks may be allowed by the Planning Director, upon recommendation by the Architectural Review Board pursuant to criteria set forth in Chapter 18.76. Special setbacks of greater than 25 feet may not be reduced except upon approval of a design enhancement exception or variance.

(2) Lesser setbacks may be allowed by the Planning Director, upon recommendation ~~Minimum street side setbacks in the RM 40 zone may be from 0 to 16 feet and shall be determined by the Architectural Review Board upon review~~ pursuant to criteria set forth in Chapter 18.76 ~~and the context-based criteria outlined in Section 18.13.060.~~

[. . .]

(8) The minimum density for a site may be reduced by the Director if, after the proposal is reviewed by the Architectural Review Board, the Director finds that existing site improvements or other parcel constraints, preclude the development from meeting the minimum density. A site with an existing single-family use or two-family use may be redeveloped at the existing density, either single-family or two-family as applicable. An existing or replaced single-family or two-family residence shall not be considered a nonconforming use, and the provisions of Chapter 18.70 shall not apply, solely based on the minimum density requirement.

[. . .]

SECTION 4. Section 18.16.060 (Development Standards) of Chapter 18.16 (Neighborhood, Community, And Service Commercial (CN, CC And CS) Districts) of Title 18 (Zoning) is amended as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

18.16.060 Development Standards

(a) Exclusively Non-Residential Uses

Table 3 specifies the development standards for exclusively non-residential uses and alterations to non-residential uses or structures in the CN, CC, CC(2) and CS districts. These

developments shall be designed and constructed in compliance with the following requirements and the context-based design criteria outlined in Section [18.16.090](#), provided that more restrictive regulations may be recommended by the architectural review board and approved by the director of planning and development services, pursuant to Section [18.76.020](#).

Table 3
Exclusively Non-residential Development Standards

	CN	CC	CC(2)	CS	Subject to regulations in Section
[...]	[...]	[...]	[...]	[...]	[...]
Maximum Height (ft)					
Standard		50'	37' (4)	50'	
Within 150 ft. of an <u>abutting</u> residential district (other than an RM-40 or PC zone) <u>(9)</u> abutting or located within 50 feet of the site	25' and 2 stories	35'	35'	35'	18.08.030
[...]	[...]	[...]	[...]	[...]	[...]
Footnotes: (1) No parking or loading space, whether required or optional, shall be located in the first 10 feet adjoining the street property line of any required yard. [...] (9) 150-foot measurement may be reduced to 50 feet at minimum, subject to approval by the Planning Director, upon recommendation by the Architectural Review Board pursuant to criteria set forth in Chapter 18.76.					

(b) Mixed Use and Residential

Table 4 specifies the development standards for new residential mixed use developments and residential developments. These developments shall be designed and constructed in compliance with the following requirements and the context-based design criteria outlined in Section [18.16.090](#), provided that more restrictive regulations may be recommended by the architectural review board and approved by the director of planning and development services, pursuant to Section [18.76.020](#).

Table 4
Mixed Use and Residential Development Standards

	CN	CC	CC(2)	CS	Subject to regulations in:
[...]	[...]	[...]	[...]	[...]	[...]
Maximum Height (ft)					
Standard	35'(4)	50'	37'	50'	
Within 150 ft. of an <u>abutting</u> residential zone district (other than an RM-40 or PC zone) <u>(5)</u> abutting or located within 50 feet of the side	35'	35' (5)	35' (5)	35' (5)	<u>18.08.030</u>
[...]	[...]	[...]	[...]	[...]	[...]

Footnotes:

(1) Twenty-five-foot driveway access permitted regardless of frontage; build-to requirement does not apply to CC district.

[...]

(5) ~~For sites abutting an RM-40 zoned residential district or a residential Planned Community (PC) district, maximum height may be increased to 50 feet.~~ 150-foot measurement may be reduced to 50 feet at minimum, subject to approval by the Planning Director, upon recommendation by the Architectural Review Board pursuant to criteria set forth in Chapter 18.76.

[...]

(10) In the CC(2) zone and on CN and CS zoned sites on El Camino Real, there shall be no minimum mixed use ground floor commercial FAR for a residential project, except to the extent that the retail preservation requirements of Section [18.40.180](#) or the retail shopping (R) combining district ([Chapter 18.30\(A\)](#)) applies.

(1) Nonresidential uses that involve the use or storage of hazardous materials in excess of the exempt quantities prescribed in Title 15 of the Municipal Code, including but not limited to dry cleaning plants and auto repair, are prohibited in a mixed use development with residential uses.

(2) Residential mixed use development is prohibited on any site designated with an Automobile Dealership (AD) Combining District overlay.

(c) Exclusively Residential Uses

[...]

SECTION 5. Section 18.18.060 (Development Standards) of Chapter 18.18 (Downtown Commercial (CD) District) of Title 18 (Zoning) is amended as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

18.18.060 Development Standards

(a) Exclusively Non-Residential Use

Table 2 specifies the development standards for new exclusively non-residential uses and alterations to non-residential uses or structures in the CD district, including the CD-C, CD-S, and CD-N subdistricts. These developments shall be designed and constructed in compliance with the following requirements and the context-based design criteria outlined in Section [18.18.110](#), provided that more restrictive regulations may be recommended by the architectural review board and approved by the director of planning and development services, pursuant to Section [18.76.020](#):

Table 2				
Exclusively Non-Residential Development Standards				
	CD-C	CD-S	CD-N	Subject to regulations in Section:
[. . .]	[. . .]	[. . .]	[. . .]	[. . .]
Maximum Height (ft)				
Standard	50	50	25	
Within 150 ft. of an abutting residential zone district	– (3)	– (3)	– (3)	18.08.030
[. . .]	[. . .]	[. . .]	[. . .]	[. . .]

(b) Mixed Use and Residential

Table 3 specifies the development standards for new residential mixed use developments and residential developments. These developments shall be designed and constructed in compliance with the following requirements and the context-based design criteria outlines in Section [18.18.110](#), provided that more restrictive regulations may be recommended by the architectural review board and approved by the director of planning and development services, pursuant to Section [18.76.020](#):

**TABLE 3
MIXED USE AND RESIDENTIAL DEVELOPMENT STANDARDS**

	CD-C	CD-S	CD-N	Subject to regulations in Section:
[. . .]	[. . .]	[. . .]	[. . .]	[. . .]
Maximum Height (ft)				
Standard	50'	50'	35'	18.08.030

Within 150 ft. of an abutting residential zone district (other than an <u>RM-40 or PC zone</u>)	40' (4)	40' (4)	35' (4)	<u>18.08.030</u>
[. . .]	[. . .]	[. . .]	[. . .]	[. . .]
<p><u>Footnotes:</u></p> <p>(1) Required usable open space: (1) may be any combination of private and common open spaces; (2) does not need to be located on the ground (but rooftop gardens are not included as open space except as provided below); (3) minimum private open space dimension 6; and (4) minimum common open space dimension 12.</p> <p>For CN and CS sites on El Camino Real, CS sites on San Antonio Road between Middlefield Road and East Charleston Road and CC(2) sites that do not abut a single- or two-family residential use or zoning district, rooftop gardens may qualify as usable open space and may count as up to 60% of the required usable open space for the residential component of a project. In order to qualify as usable open space, the rooftop garden shall meet the requirements set forth in Section 18.40.230.</p> <p>[. . .]</p> <p>(4) <u>Reserved.</u> For sites abutting an RM-40 zoned residential district or a residential Planned Community (PC) district, maximum height may be increased to 50 feet.</p> <p>(5) The weighted average residential unit size shall be calculated by dividing the sum of the square footage of all units by the number of units. For example, a project with ten 800-square foot 1-bedroom units, eight 1,200-square foot 2-bedroom units, and two 1,800-square foot 3-bedroom units would have a weighted average residential unit size of $((10 \times 800) + (8 \times 1,200) + (2 \times 1,800)) \div (10 + 8 + 2) = 1,060$ square feet.</p>				

[. . .]

SECTION 6. Section 18.20.040 (Site Development Standards) of Chapter 18.20 (Office, Research, And Manufacturing (MOR, ROLM, RP And GM) Districts) of Title 18 (Zoning) is amended as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

18.20.040 Site Development Standards

Development in the office research, industrial, and manufacturing districts is subject to the following development standards, provided that more restrictive regulations may be required as part of design review under Chapter 18.76 of the Palo Alto Municipal Code.

(a) Development Standards for Non-Residential Uses

Table 2 shows the site development standards for exclusively non-residential uses in the industrial and manufacturing districts.

TABLE 2
INDUSTRIAL/MANUFACTURING NON-RESIDENTIAL SITE DEVELOPMENT STANDARDS

	MOR	ROLM	ROLM(E)	RP	RP(5)	GM	Subject to Regulations in Chapter:
[. . .]	[. . .]	[. . .]	[. . .]	[. . .]	[. . .]	[. . .]	[. . .]
Maximum Height (ft)							
Standard	50	35(4)		35(4)		50	
Within 150 ft. of an <u>abutting</u> residential zone (5)	35	35		35		35	<u>18.08.030</u>
Within 40 ft. of an <u>abutting</u> residential zone(5)	35	25		25		35	<u>18.08.030</u>
[. . .]	[. . .]	[. . .]		[. . .]		[. . .]	[. . .]

[. . .]

SECTION 7. Section 18.30(J).090 (Development Standards) of Subchapter 18.30(J) (Affordable Housing (AH) Combining District Regulations) of Chapter 18.30 (Combining Districts) of Title 18 (Zoning) is amended to read as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

18.30(J).090 Development Standards

The following development standards shall apply to projects subject to the AH affordable housing combining district in lieu of the development standards for the underlying zoning district, except where noted below:

Table 1
Development Standards

AH Combining District (1)		
Minimum Site Specifications		Subject to regulations in:
[. . .]	[. . .]	[. . .]
Maximum Height (ft)	50'	
Within 50 ft of an <u>abutting</u> residential district (other than an <u>RM-40 or PC zone</u>) R1, R-2, RMD, RM-20, or RM-30 zoned property	35'(3)	<u>18.08.030</u>

[. . .]	[. . .]	[. . .]
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[. . .]

SECTION 8. Section 18.30(K).070 (Development standards) of Subchapter 18.30(K) (Workforce Housing (WH) Combining District Regulations) of Chapter 18.30 (Combining Districts) of Title 18 (Zoning) is amended to read as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

18.30(K).070 Development Standards

(a) Where the WH combining district is combined with the public facilities district, the following development standards shall apply for workforce housing projects, including permitted incidental uses, in lieu of the development standards for the underlying PF zoning district:

Table 1
Development Standards

WH Combining District		
Minimum Site Specifications		Subject to regulations in:
[. . .]	[. . .]	[. . .]
Maximum Height (ft)		
Standard	50'	
Within 150 ft. of an <u>abutting</u> residential district (other than an RM-40 or PC zone) <u>abutting</u> or located within 50 feet of the site	35', except as limited by applicable daylight plane requirements	<u>18.08.030</u>
[. . .]	[. . .]	[. . .]

[. . .]

SECTION 9. Section 18.38.150 (Special requirements) of Chapter 18.38 (PC Planned Community District Regulations) of Title 18 (Zoning) is amended to read as follows (new text underlined and deletions ~~struck through~~; omissions are noted with [. . .] for large sections of unchanged text):

18.38.150 Special requirements.

Sites ~~abutting or~~ and having any portion located with ~~one hundred fifty~~ 150 feet of any RE, R-1, R-2, RM, or any PC district permitting single-family development or multiple-family development shall be subject to the following additional height and yard requirements:

- (a) Parking Facilities. The maximum height shall be equal to the height established in the most restrictive adjacent zone district.
- (b) All Other Uses. The maximum height within ~~one hundred fifty~~ 150 feet of any abutting RE, R-1, R-2, RM-20, or applicable PC district shall be ~~thirty-five~~ 35 feet; provided, however, that for a use where the gross floor area excluding any area used exclusively for parking purposes, is at least ~~sixty~~ 60 percent residential, the maximum height within ~~one hundred fifty~~ 150 feet of an abutting RM-4-30 or RM-5-40 district shall be ~~fifty~~ 50 feet.

[. . .]

SECTION 10. Any provision of the Palo Alto Municipal Code or appendices thereto inconsistent with the provisions of this Ordinance, to the extent of such inconsistencies and no further, is hereby repealed or modified to that extent necessary to effect the provisions of this Ordinance.

SECTION 11. If any section, subsection, sentence, clause, or phrase of this Ordinance is for any reason held to be invalid or unconstitutional by a decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of this Ordinance. The City Council hereby declares that it would have passed this Ordinance and each and every section, subsection, sentence, clause, or phrase not declared invalid or unconstitutional without regard to whether any portion of the ordinance would be subsequently declared invalid or unconstitutional.

SECTION 12. The Council finds that the Ordinance is within the scope of and in furtherance of the Comprehensive Plan 2030 which was evaluated in that certain Final Environmental Impact Report certified and for which findings were adopted by Council Resolution Nos. 9720 and 9721 on November 13, 2017, all in accordance with the California Environmental Quality Act. The Ordinance does not propose to increase development beyond what was analyzed in the Comprehensive Plan. Pursuant to Section 15168 of the State CEQA Guidelines, the City has determined that no new effects would occur from and no new mitigation measures would be required for the adoption of this Ordinance.

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SECTION 13. This ordinance shall be effective on the thirty-first date after the date of its adoption.

INTRODUCED:

PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

City Clerk

Mayor

APPROVED AS TO FORM:

APPROVED:

Assistant City Attorney

City Manager

Director of Planning & Development
Services



City of Palo Alto City Council Staff Report

(ID # 12392)

Meeting Date: 1/24/2022

Title: City of Palo Alto's Energy Risk Management Report for the Second Half of Fiscal Year 2021 (January 1, 2021-June 30, 2021)

From: City Manager

Lead Department: Administrative Services

Recommendation

This is an informational report and no City Council action is required.

Executive Summary

Staff continues to purchase electricity and gas in compliance with the City's Energy Risk Management Policies, Guidelines, and Procedures. This report is based on market prices and load and supply data as of June 30, 2021, the end of the second half of Fiscal Year (FY) 2021.

The projected cost of the City's fixed-price electricity purchases is \$0.66 million higher than the market value of that electricity as of June 30, 2021 for the 12-month period beginning July 1, 2021. In the second half of FY 2021 (January 1, 2021 through June 30, 2021) the City's credit exposure to fixed price contracts is minimal. The projected Electric Supply Operations Reserve is above the FY 2021 minimum guideline reserve level and the projected gas reserve is also above the FY 2021 guideline reserve level range.

There were no exceptions to the Energy Risk Management Policies, Guidelines, or Procedures during the second half of FY 2021.

Background

The purpose of this report is to inform the Council about the status of the City's energy portfolio and transactions executed with energy suppliers as of the end of the second half of FY 2021. The City's Energy Risk Management Policy requires that staff report on a quarterly basis but due to lower trading activity levels the Utility Risk Oversight Coordinating Committee (UROCC) has approved providing this report on a semi-annual basis to Council on: 1) the City's energy portfolio; 2) the City's credit and market risk profile; 3) portfolio performance; and 4) other key market and risk information.

The City's Energy Risk Management Policy describes the management organization, authority, and processes to monitor, measure, and control market risks. Market risks include price and

counterparty credit risk. These are risks that the City is exposed to on a regular basis in procuring electric supplies, and to a lesser extent for gas supplies which are purchased at market rates via a monthly index price. The Treasury Division of the Administrative Department manages the City's Energy Risk Management function; their role is to monitor and mitigate the City's exposure to market risks.

This second half of FY 2021 Energy Risk Management report contains information on the following:

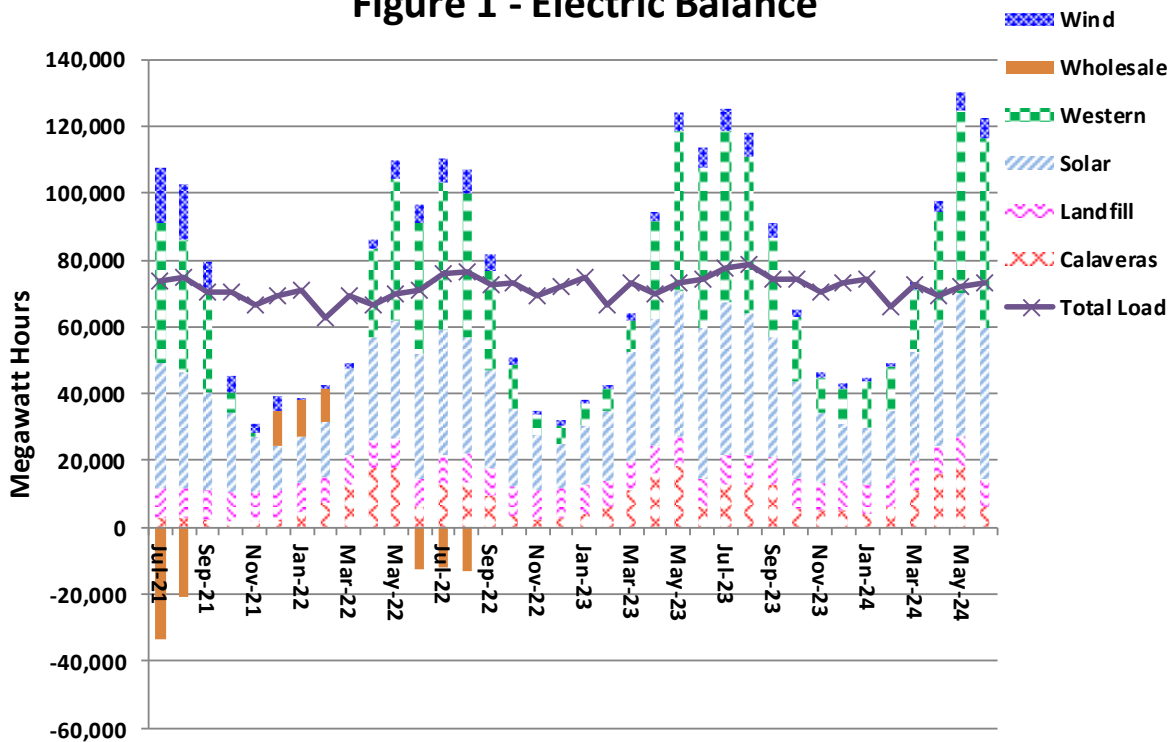
- Electric Supplies
- Hydroelectricity
- Fixed-Price Forward Electricity Purchases
- Gas Supplies
- Credit Risk
- Electric Forward Mark-to-Market Values
- Electric and Gas Supply Operations Reserves Adequacy
- Exceptions to Energy Risk Management Policies, Guidelines, or Procedures

Discussion

Electric Supplies

In order to serve the City's electric supply demands, the City obtains electricity from hydroelectric resources (from Western and Calaveras Hydroelectric Projects); long-term renewable energy contracts (from landfill gas converted to electricity, wind, and solar projects); wholesale purchases which are carried out via fixed-priced forward market purchase contracts; and the electric spot market.

Figure 1 below illustrates the projected sources and expected purchases of electricity supplies by month for the 36 months from July 1, 2021 to June 30, 2024, in megawatt-hours (MWh). The negative bars represent sales of excess power on the wholesale market.

Figure 1 - Electric Balance

Hydroelectricity

The cost of hydroelectricity received from Western over the 12-month period ending June 30, 2021 is more than the market value of electricity by \$1.0 million. Hydroelectric power from Calaveras was expected to cost \$2.7 million (as of June 30, 2021) more than the market value of electricity. Note that Calaveras provides benefits not reflected in the mark-to-market (MTM, defined in the following section) calculation, including, for example, ancillary services (e.g., the ability to regulate energy output when the electric grid needs change), and that much of the above-market costs are related to debt service on the cost of constructing the dam. This debt is due to be retired in 2032, and retirement will substantially improve the value of the project relative to the market price of electricity.

Fixed-Price Forward Electricity Purchases

The City, as of June 30, 2021, has purchased and sold fixed-priced supplies of electricity for the next 12 months totaling 31,200 MWh with an average price of \$43.72 per MWh and totaling 54,080 MWh with an average price of \$39.23 per MWh, respectively. The City contracted for these purchases with three of its approved counterparties: SENA (Shell Energy North America), EDF, and NextEra Energy Resources. The 12-month MTM value of the City's forward transactions for wholesale power was \$0.66 million at the end of the second half of FY 2021. A positive MTM means that the sales price for these transactions was lower than the market value as of June 30, 2021. The City tracks the mark to market value of its forward contracts to measure the value that would be lost due to a counterparty failing to deliver on its contractual commitments, forcing the City to purchase replacement electricity in the market. The exposure

listed above is well within risk management guidelines and presents little risk to the City's financial outlook.

The figures below represent the electric forward volumes (Figure 2) and MTM positions (Figure 3) for each electric supplier by month of delivery for all forward fixed-price electricity contracts over the 12-month period ending June 30, 2022.

Figure 2 - Electric Forward Volumes ending as of 06/30/21

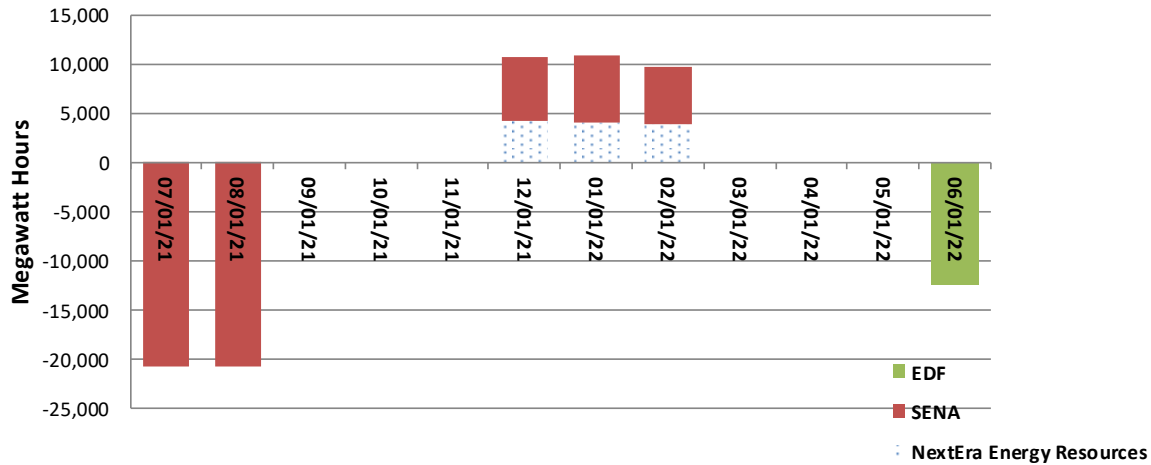
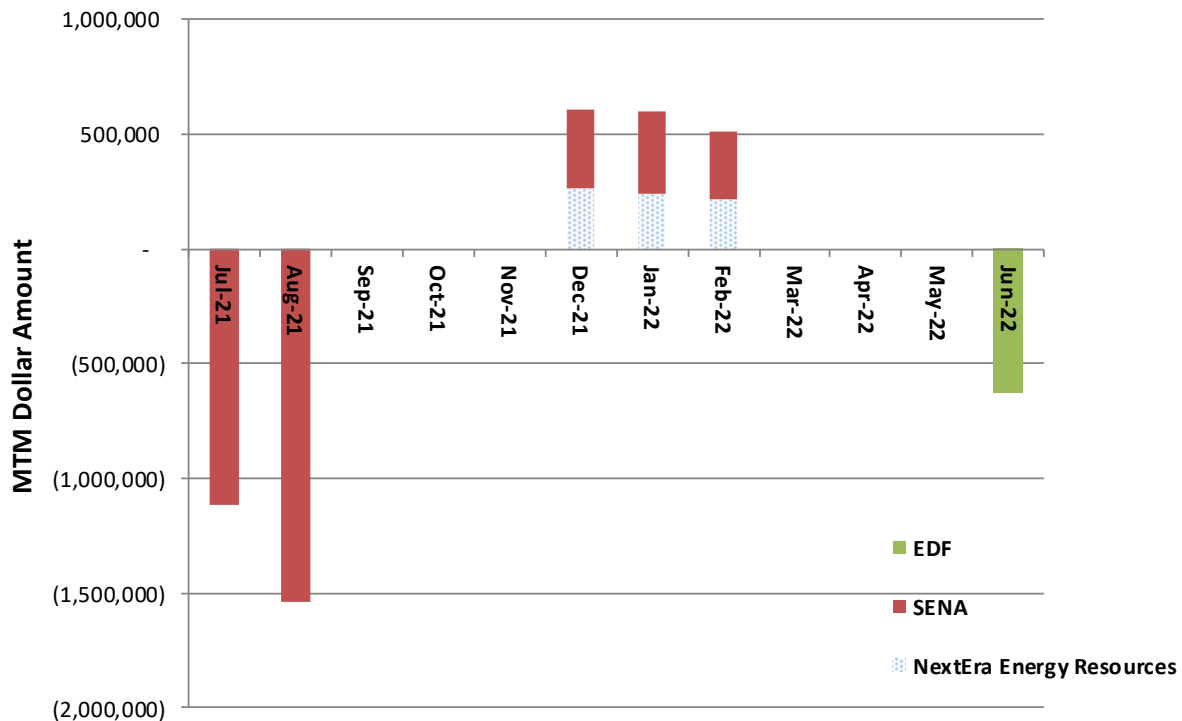


Figure 3 - Electric Mark-to-Market Values ending as of 06/30/21



Gas Supplies

In order to serve the City's natural gas needs, the City purchases gas on the monthly and daily spot markets. The City purchases all its forecasted gas needs for the month ahead at a price based on the published monthly spot market index price for that month. Within the month, the City's gas operator buys and sells gas to match the City's daily needs if the actual daily usage is different from the forecasted average daily usage. Those daily transactions are made at an average price based on the published daily spot market index. These costs are passed through directly to customers using a monthly rate adjustment mechanism, leaving the City with little or no price risk or counterparty risk exposure for the gas utility.

Credit Risk

Staff monitors and reports on counterparty credit risk based on the major credit rating agencies (S&P and Moody's) scores, Ameresco has a 0.22 percent Expected Default Frequency (EDF) which is higher than the recommended EDF level of 0.08 percent. The EDF has improved, the prior year it was 0.24 percent and, as of writing of this report, (December 14, 2021), the EDF is 0.16 percent. Staff is continuing to monitor Ameresco's EDF and will continue to report to City Council in this semi-annual report. Table 1 below shows the EDF values for the City's renewable energy counterparties. Table 2 below shows the EDF values and credit exposure for the City's electric suppliers. There is virtually no credit exposure to the City's gas suppliers since the supplies are purchased on a short-term basis.

Table 1 - Renewable Counterparties Credit Ratings and EDFs as of 06/30/21

Renewable Counterparty	Current Expected Default Frequency	Moody's (EDF) Implied Rating
Ameresco	0.22%	Ba1
Avangrid (formerly Iberdrola)	0.03%	Aa3

Source: CreditEdge website

Table 2 - Credit Exposure and Expected Default Frequency of Electric Suppliers as of 06/30/21

Electric Counterparty	Cost of Transaction	Market Value of Transaction	Cost vs. Market (MTM) Value	Current Expected Default Frequency	Moody's (EDF) Implied Rating	Expected Loss (MTM x Expected Default Frequency)
Exelon	\$ -	\$ -	\$ -			\$ -
NextEra	591,008	714,079	123,071	0.012%	Aa1	-
SENA	(918,096)	(1,653,555)	735,459	0.051%	Aa2	-
EDF	(430,560)	(632,646)	(202,086)	n/a	Baa2	-
Totals	\$ (757,648)	\$ (1,572,122)	\$ 656,443			\$ -

Electric Forward Mark-to-Market Values

It is important to note that, for contracts with renewable energy companies, Council waived the investment grade credit rating requirement of Section 2.30.340(d) of the Palo Alto Municipal Code, which applies to energy companies that do business with the City. In addition, the City does not pay for renewable energy until it is received, thereby reducing risk.

An EDF of 0.08 percent or below indicate supplier's current expected default frequency falls within the investment grade range. An EDF above 0.08 percent indicates the supplier may have financial issues that require monitoring.

Electric and Gas Supply Operations Reserves Adequacy

As shown in Table 3 below, the Electric Supply Operations reserve's audited balance as of June 30, 2021 is \$29.9 million, which is \$4.7 million above the minimum reserve guideline level. The audited Gas Operations reserve balance is \$12.0 million, which is \$6.1 million above the minimum reserve guideline level.

Table 3 - Electric Supply Operations and Gas Operations Reserve Levels for FY 2021

Fund	Audited Reserve for Operations Balance as of 06/30/2021 (\$ Millions)	Changes to the Reserves for Operations (\$ Millions)	Unaudited Reserve for Operations Balance as of 06/30/21 (\$ Millions)	FY 2021	
				Minimum Guideline Reserve Level (\$ Millions)	Maximum Guideline Reserve Level (\$ Millions)
Electric	\$29.9	\$0.0	\$29.9	\$25.2	\$46.9
Gas	\$12.0	\$0.0	\$12.0	\$5.8	\$11.7

Exceptions to Energy Risk Management Policies, Guidelines, or Procedures

There were no exceptions to the Energy Risk Management Policies, Guidelines, or Procedures to report during the second half of FY 2021.



City of Palo Alto City Council Staff Report

(ID # 13535)

Meeting Date: 1/24/2022

Title: Informational Report on the GreenWaste of Palo Alto Certificate of End Use & Traceability Report and Update on Council Direction Regarding Recyclable Materials.

From: City Manager

Lead Department: Public Works

Recommendation

This is an informational report and no Council action is required.

Background

The City required GreenWaste of Palo Alto (GWPA), under the existing collection contract, to report on the disposition of recyclable materials as well as to gather information on the environmental and social implications associated with the processing of Palo Alto's recyclable materials. GWPA was to request information regarding the disposition of specific materials from each of their primary purchasers to whom the GreenWaste Materials Recovery Facility (GreenWaste MRF) directly sells the recyclable materials and annually report the information to the City. The first two GWPA reports can be found at the following links:

- [Fiscal Year 2019 – Initial Review of Certificate of End Use & Traceability Data, 2019](#)
- [Fiscal Year 2020 – Initial Review of Certificate of End Use & Traceability Data, 2020](#)

Staff has learned that the marketing of recyclable materials is commonly conducted through brokers that orchestrate the processing of materials internationally. This leaves unknowns and raises questions about whether the international processing facilities are recycling the materials and if the processing and disposal is causing environmental or social issues. The information GWPA provided is very limited and restricted due to confidentiality concerns from their vendors. In May 2021, during discussions on this topic as part of the new solid waste processing contract with GreenWaste Recovery ([ID # 11632](#)), Council directed staff to:

1. Pursue, with other cities, to have GreenWaste provide greater accounting of secondary markets that they utilize;
2. Direct the City Manager to return with an amendment to authorize a quick response to opportunities to utilize domestic mixed paper recycling;
3. Provide GreenWaste reports to the public and City Council on a regular basis;
4. Work with other cities on legislation to spur domestic or in-state recycling; and

5. If GreenWaste is unable to provide additional secondary market accounting, return to Council for consideration of further actions.

Discussion

GWPA 2021 Certificate of End Use & Traceability Data Report

Palo Alto's recyclable materials are processed at GreenWaste's MRF in San Jose where they are combined with recyclables from other communities, separated by type, baled, and prepared for marketing. GWPA's Fiscal Year 2021 report titled "Initial Review of Certificate of End Use & Traceability Data, 2021" (Attachment A) summarizes the traceability data and online review of company information relative to sustainability and international markets. This report highlights the GreenWaste MRF's upgrades, their goal to seek domestic processing, the development of a new mixed paper composting pilot in collaboration with the City, and updates on the pursuit of other advanced processing technologies for recyclable materials. This report also includes the supplementary marketing, processing, and disposal information from GreenWaste's primary purchasers and summarizes the recyclable materials tonnages by commodity types, the spread of domestic vs. export markets, and the location of secondary processing, if applicable. In Fiscal Year 2021, approximately 14,000 tons of recyclable materials were processed from Palo Alto with approximately 39 percent staying in the United States and approximately 61 percent being exported internationally to India, Indonesia, Korea, Malaysia, Mexico, Taiwan, Thailand, Vietnam, and other countries. However, the GWPA reports are generalized and do not explain which shipments go to which facilities within those countries. Therefore, it is not possible to definitively determine whether the materials are being recycled properly or whether they may be causing environmental or social problems.

Update on Council's Direction

Staff developed a plan to address Council's direction including to connect and collaborate with other jurisdictions and entities to determine final disposition of their recyclable materials and to determine support and interests to create legislation requiring marketers, brokers, and businesses in the recycling industry to disclose the entire flow of materials to final disposition. Below is an update to each of Council's direction:

1. *Communication with other cities*

Staff is finalizing discussions with local cities and jurisdictions which have recyclable materials processed at the GreenWaste MRF to determine interest levels in requesting greater accounting of secondary markets utilized for recyclable materials. Initial feedback is that the majority of jurisdictions do not have recycling traceability requirements within their contracts but are interested in either joining a discussion forum or minimally being informed of Palo Alto's progress.

2. *Amendment for a quick response to domestic processing opportunities*

Council directed staff to bring an amendment to the GWPA contract to allow for a quick response to handling mixed paper domestically, and staff plans to bring the amendment

forward to Council in Spring 2022. Meanwhile, GWPA is assisting staff with further research and pilot projects as potential alternatives to current processing of recyclable materials and to determine the additional cost implications. There are two pilots currently in progress. A mixed paper composting pilot is being conducted to determine its breakdown capabilities and the possibility for a larger scale processing operation to accommodate the amount of mixed paper generated in Palo Alto. Staff expects information and analytics on this pilot in January. Additionally, a second pilot on a recycling supply chain verification is in progress to test a chain of custody tracking of a specific plastic from the GreenWaste MRF in San Jose to a domestic plastics processor in Southern California.

3. *Provide GreenWaste reports*

This information report includes the 2021 Certificate of End Use and Traceability report from GWPA.

4. *Legislation to spur domestic or in-state recycling*

Staff is communicating with local legislators and CalRecycle and requesting collaboration to develop policies requiring a system to ensure that recyclable materials can be tracked to disclose the entire flow of materials to final disposition; to create a third-party certification process to verify that recyclables intended to be recycled are actually recycled; and to keep recyclables within the United States where laws and regulations can protect the environment and human health. Staff developed a survey for local cities and jurisdictions to determine interest levels in joining a task force to create legislation. Staff is having similar discussions with other entities including the National Stewardship Action Council, the Basel Action Network, the California Stewardship Action Council, California's Statewide Commission on Recycling Markets and Curbside Recycling, and CalRecycle, the State's waste management agency.

5. *Additional secondary market accounting*

There is no update on this specific motion yet, but staff is searching for reliable and descriptive information on secondary markets.

Staff plans to provide Council with updates and developments on these Council directives and individual projects as more information is available to be reported.

Resource Impact

This informational report does not have a direct resource impact at this time; however, some of the options staff is exploring may require additional funding within the Refuse Fund Operating Budget for increased future expenses. For example, one of the alternatives to sending mixed paper to international markets for recycling includes finding domestic processing facilities, which would result in additional processing and transportation expenses being incurred. Staff plans to bring the amendment to the GWPA contract forward to Council to allow for a quick response to recycling mixed paper domestically. Associated adjustments to the Refuse Fund

Operating Budget will be considered as part of the FY 2023 budget development process, subject to Council's annual appropriation of funds.

Stakeholder Engagement

This is an informational report and update. When more information on international markets becomes available, input from the public will be sought.

Environmental Review

This informational report does not require environmental review.

Attachments:

- **Attachment14.a:** Attachment A: 2021 GreenWaste of Palo Alto Traceability Report

Initial Review of Certificate of End Use & Traceability Data, 2021

Summary of submitted traceability data and online review of company information
relative to sustainability and international markets

July 21, 2021

Updated August 10, 2021

Updated December 13, 2021

Background & Expectations

GreenWaste of Palo Alto and GreenWaste Recovery

GreenWaste of Palo Alto (GWPA) is the City of Palo Alto's Solid Waste, Recyclable Materials, and Compostable Materials Collection Contractor. This Collection Agreement commenced in October 2008, was amended and restated in June 2015, and was again amended and restated in January 2019, with the term extended through June 30, 2026.

The GWPA Collection Agreement states that Recyclable Materials are to be delivered to the GreenWaste Recovery (GWR) Materials Recovery Facility (MRF), where the materials are to be processed for recovery. At the MRF, initial processing is conducted on the single stream recyclables collected throughout the region. In this process, GreenWaste separates all materials by commodity type and removes contamination. GreenWaste then sells the separate commodities to brokers and/or secondary processors.

Currently, GWPA transports Solid Waste to the SMaRT Station in Sunnyvale. In August 2020, the City of Palo Alto released an RFP for the processing of Solid Waste, and in May 2021, GWR was awarded that Processing Agreement. Effective January 1, 2022, GWPA will begin transporting Solid Waste to the GWR MRF for processing.

The material managed by the GWPA Collection Agreement and the material managed by the GWR Processing Agreement are disparate. GWPA collects approximately 18,000 tons of Recyclable Materials annually for processing at the GWR MRF. Meanwhile, less than 1,000 tons of recyclables are projected to be recovered out of the City's Solid Waste annually. The real value of the GWR Processing Agreement is the assurance that organics material will be recovered and not sent to landfill.

Commodities Markets & Trade Secrets

GWR is a recyclables processor, and markets its own recyclable commodities. Recycling is a complex industry, and has gotten more complex over the past five years.

CalRecycle succinctly summarizes some of the recent changes that have had significant impacts on the recycling industry:

"The export of recyclable materials is a key component of California's recycling infrastructure. Changes to international policies restricting imports of recyclable materials, the declining global market for plastic and paper scrap, and the impending Basel Convention plastic waste amendments that will make exporting plastic scrap more challenging continue to pose a significant challenge to the solid waste and recycling industry, local governments, and Californians."

<https://www.calrecycle.ca.gov/markets/nationalsword>

GWR has witnessed firsthand the impacts resulting from the change in international markets. In 2017, a paper mill in Santa Clara closed due to high production costs. The products were moved to mills in the Midwest, Louisiana and Georgia. The closure came as industry leaders spoke about the need for more domestic mill capacity to handle material that could no longer be shipped to China. There was major price instability due to a freeze in issuance of new Chinese import licenses. These fluctuating Old Corrugated Cardboard (OCC) prices contributed to the decision to close the California plant.

As the marketers of their own recyclable commodities, GWR has borne witness to how unstructured the commodities market can be. Brokers only have limited information about the ports to which commodities are intended to ship. Once at the ports, materials are sent to various plants, making the

full life-cycle of commodities extremely difficult to track. Furthermore, with the current state of the markets, recyclables brokers are not in a position to place requirements on customers.

Moreover, information on commodity markets, pricing, buyers and other information pertaining to commodity sales transactions constitute confidential and proprietary corporate Trade Secrets. This information is not of public knowledge or general knowledge in the trade or business and that have an intrinsic value preserved by being safeguarded from disclosure. GreenWaste and its brokers stand to be harmed by the disclosure of Trade Secrets as follows:

- Losing markets for specific materials (e.g. clamshells or film plastics),
- Losing *local* markets and only having available domestic or international markets,
- Losing *domestic* markets and only having available international markets, or
- Jeopardizing relationships with buyers, with the potential to lose business.

For all of the reasons detailed above, it has been quite a challenge to try to ascertain additional information regarding the final disposition of recovered recyclables. GWR and GWPA are not alone in this challenge to gather a complete data set. The World Wildlife Fund (WWF) recently established *Resource: Plastic* in cooperation with five Principal Members (Keurig Dr Pepper, McDonald's Corporation, Procter & Gamble, Starbucks, and The Coca-Cola Company), and released its inaugural *Transparent 2020* report. The report identified the significant data gaps: "*The lack of data on waste management globally is a shared challenge—no one institution can address it alone...*" (<https://resource-plastic.com/pdf/Transparent2020.pdf>).

New Agreement Amendment & Expectations

At the end of 2018, while City staff was updating their Zero Waste Plan and wrapping up negotiations with GWPA on an Agreement Amendment and extension, Council gave City staff direction to report on the intermediate and final disposition of Palo Alto's recovered paper and plastic. City staff and GWPA agreed that as a goal, GWPA would attempt to gather information on the environmental and social implications associated with the full life-cycle of Palo Alto Recyclable Materials.

The expectation of the new Attachment to the Agreement, "*Environmental and Social Impacts of Processing Recyclable Materials*", was that GWPA would request information from the "primary purchasers" of Palo Alto's Recyclable Materials and then conduct a desk study based on the provided information. The ultimate goal is for the City of Palo Alto to have a better understanding of the final disposition of the materials, and therefore guide their materials management program.

Progress & Action Plan

GWR Facility upgrades

In order to ensure that all materials leaving the MRF are in proper condition to be recycled, GreenWaste focuses on ensuring clean, contamination-free commodities. GWR completed an upgrade to its single stream recyclables line (the line on which Palo Alto's recyclable materials are processed) in May of 2019. The upgrade included the installation of six optical sorters designed to reduce contamination and produce cleaner, higher quality recovered recyclables. More specifically, these optical sorters improve the quality of mixed paper and newsprint by repelling plastic away from paper using infrared lasers. These lasers identify the various types of plastics that inadvertently end up mixed in the paper stream and recover them based on their unique resin type. Both the paper and plastics are separated, sorted, and then baled.

Then again in February of 2020, GWR performed another upgrade to the facility. Two Max-AI systems (one featuring two sorting units) were installed and programmed to identify specific material types and extract anything that does not belong in the stream. The first unit removes non-HDPE contamination and the second unit selects HDPE-natural. By ensuring a clean product, GWR gains a strong position in the market, and reduces the risk of downstream issues.

Domestic processing availability

Recycling operations across North America are adding additional processing capacity in order to accommodate a growing amount of material displaced by export market upheavals. Domestic innovation is growing, but still far from providing sufficient capacity for all domestic commodities generated domestically.

GreenWaste of Palo Alto has also worked with GreenWaste Recovery to identify more domestic markets for paper and plastic, which would provide greater assurances regarding the ultimate disposition of the material, and would also ensure that the processing adheres to the United States' environmental standards. Domestic markets are generally more expensive than international markets, and GWR would need to act very quickly in order to secure a space with a domestic processor should space become available. In October of 2019, GWR secured a domestic mill for Palo Alto's mixed paper. Securing this space for paper processing was dependent on approval from Palo Alto City Council, which takes more time than allowable by timelines within the market. GWPA, GWR and City staff are developing methodologies to more readily allow a quick response to market developments. Meanwhile, in spring of 2021, GreenWaste expanded domestic contracts by adding a new domestic three-year supply agreement.

Recycling entities have made efforts to track the locations of the expanding capacity, as follows:

- **NERC – North American Recycled Plastic Processing Capacity Increases, published 1/17/20.**
This is a list of increases in North American capacity to process recyclable plastics into products such as plastic lumber, pellets or resins for end-markets. The list covers facilities that have been publicly identified in either the trade or local press.
<https://nerc.org/documents/North%20American%20Recycled%20Plastic%20Processing%20Capacity%20Increases%20-%20January%202020.pdf>
- **Resource Recycling – End Market Expansions for Recovered Fiber**
Resource Recycling charted North American paper mill expansions on a map. All the included projects were announced or completed in 2017 or later.
<https://resource-recycling.com/recycling/2019/08/27/these-projects-are-boosting-domestic-capacity-for-recycled-paper/>
- **Resource Recycling – End Market Expansions for Recovered Plastic**
Resource Recycling charted North American plastic processing expansions on a map. All the included projects were announced or completed in 2017 or later.
<https://resource-recycling.com/recycling/2020/02/25/domestic-plastics-recycling-capacity-is-expanding/>

Mixed Paper Composting Pilot

Due to the limitations of available traceability information and insufficient domestic markets for fiber material, the GreenWaste partners have considered alternative handling and processing options for mixed paper. Together with Z-Best Composting Facility, GWR has offered the City of Palo Alto a pilot project to determine the effectiveness and associated costs relative to composting mixed paper

recovered from the single stream recyclables line. This is an unconventional approach because the “highest and best use” of clean recovered paper is to be recycled. However, GWR and GWPA are eager to provide the analysis that will inform the City’s materials management plan. An outline of the pilot’s methodology and associated analysis follows.

Methodology

- Mixed paper bales recovered from the single-stream recyclables line, amounting approximately 10 tons, will be opened at the MRF and transported separately to Z-Best for processing.
- At Z-Best, the paper will be shredded and then transported to the composting area, where it will be mixed with other organics (wood fines or green fines) to approximate a normal feedstock profile prior to being injected into the composting bag.
- The bagged area containing the mixed paper will be marked for future analysis.
- The pilot material will undergo the standard composting process, which includes a retention time of approximately four months.
- After the composting process, the mixed paper segment will be screened and compared with typical processed post-consumer organics (with lower fiber content).
 - If the material has sufficiently composted, it will undergo the standard curing process.
 - If the material has insufficiently composted, it will be disposed.

Analysis

- The process will be documented as follows:
 - Dates & photos of notable steps in the process
 - Weights will be assessed during important milestones
- Material will be screened and the compost fraction will be evaluated for particle size, maturity and visible paper remnants.
- The overs fraction will be evaluated for un-composted paper content.
- If the pilot illustrates that this is a feasible processing option, a per-ton rate estimate and/or other associated costs will be provided.

Advanced Processing Technologies

Energy Conversion/Gasification

GreenWaste of Palo Alto has had a number of conversations with innovative companies over the years to determine alternative approaches to processing various material types, ranging from diapers to difficult-to-recycle plastics, and has signed a number of NDAs as conversations have progressed. These technologies include plastic-to-oil and gasification of problematic plastics and diapers. Thus far, the costs associated with these technologies have been prohibitive.

Novoloop (previously BioCellection)

GWR has been in a public-private partnership with Novoloop and the City of San Jose to develop chemical processing methodologies for film plastic. This process upcycles the plastic by breaking it down to its basic elements, which are the building blocks for new, more durable plastics. GWR is currently working with Novoloop to install equipment that would pelletize plastic film, which would integrate Novoloop’s technology with solid waste facility recovered plastics.

Alternative Approaches

In order to expand the scope and success of the traceability work detailed in the report, GreenWaste of Palo Alto and the City of Palo Alto have discussed potential next steps. The discussion has included research into technological advancements, including GPS trackers, to understand where material is

actually ending up. GreenWaste staff participated in discussions with the Ecology Center in Berkeley, which partnered with Basel Action Network's Earth Eye to deploy GPS units in bales. When GWR has explored this option with brokers, it has become clear that 1) brokers do not want these units in their bales, and 2) bales may be sent back to the sender (from the ultimate purchaser) if a GPS tracking unit is found (which come at a great cost). The resistance to this approach continues.

Summary

GWR and GWPA staff worked in coordination to obtain supplementary marketing, processing, and disposal information from GWR's primary purchasers. The following tables summarize materials sorted by commodity types, and the spread of domestic vs. export markets as reported by GWR's primary purchasers.

Tonnage Summary

GreenWaste Material Recovery Facility				
Product Specifications	Domestic	Export	FY 2021 Actual Tonnage (Recovered from SS & MSW)	Material Type Breakdown
Aluminum Cans	100% Domestic	0% Export	1,726.32	1.05%
Aluminum Foil/Scrap	100% Domestic	0% Export	306.53	0.19%
Ferrous/Tin	100% Domestic	0% Export	3,290.33	2.00%
Glass, Commingled	100% Domestic	0% Export	36,688.30	22.28%
Plastic, HDPE	~99% Domestic	~1% Export	4,618.66	2.81%
Plastic, PET	~99% Domestic	~1% Export	4,956.05	3.01%
Rigid Plastic	~10% Domestic	~90% Export	2,129.78	1.29%
Film Plastics	~5% Domestic	~95% Export	204.12	0.12%
Paper (mixed, news, office)	0% Domestic	100% Export	34,788.14	21.13%
Cardboard	~5% Domestic	~95% Export	67,593.19	41.05%
Scrap Metal (all grades)	100% Domestic	0% Export	8,283.89	5.03%
E-Waste	100% Domestic	0% Export	65.84	0.04%
Total	38.53%	61.47%	164,651.15	100%
% Palo Alto	8.6% of overall recyclable material			

Primary Purchaser Summary

The following table provides a summary of the types of recyclables marketed by GWR and the associated primary purchasers.

Product Specifications:	Primary Purchasers/Countries <i>(for material types covered in this report)</i>
Plastic, HDPE	<u>Berg Mill</u> : International <u>Envision Plastics</u> : North Carolina & California <i>(per 2020)</i>
Plastic, PET	<u>Berg Mill</u> : Domestic & International
Rigid Plastic	<u>Berg Mill</u> : International <u>Newport CH International</u> : International
Mixed Plastic Containers	<u>Berg Mill</u> : International
Film Plastics	<u>Berg Mill</u> : International <u>Newport CH International</u> : International
Mixed Paper	<u>Newport CH International</u> : International <u>Fibre Trade</u> : Domestic, Southeast Asia, Mexico <u>OGO Fibers</u> : Thailand, Vietnam, Malaysia, Korea
Newspaper	<u>Berg Mill</u> : International <u>Fibre Trade</u> : Domestic, Southeast Asia, Mexico <u>Newport CH International</u> : International <u>OGO Fibers</u> : Thailand, Vietnam, Malaysia, Korea, India
Old Corrugated	<u>Berg Mill</u> : International <u>CellMark</u> : International & Domestic <i>(per 2020)</i> <u>Newport CH International</u> : International <u>OGO Fibers</u> : Thailand, Vietnam, Korea, Malaysia, India <u>Super Link Plastic</u> : Vietnam, Korea, Thailand, India, Indonesia, Taiwan, Malaysia

Berg Mill is the primary recipient/purchaser of GreenWaste's processed recyclables, however, the actual quantity directed to Berg Mill changes every month as all movement is dependent on pricing and bookings available. Overall, GreenWaste's primary purchasers continue to be hesitant to provide details regarding the life-cycle of the materials they buy because this data set often includes proprietary information.

CellMark Inc. (Novato, CA)

CellMark did not provide traceability data for the cardboard it purchases from GreenWaste, but did provide basic information about the company.

CellMark is both a brokerage and a secondary processor, and its purchasers are secondary processors. The secondary processing includes chipping, washing, and pelletizing (for plastic products). Per the Cellmark website, CellMark ships to facilities in North America, Europe, South America, the Caribbean and Asia (www.cellmark.com/recycling/).

Per the CellMark website, CellMark participates in initiatives to ensure global sustainability. CellMark comments on its sustainability via its CSR webpages (<https://www.cellmark.com/ideas-values/sustainability-csr/>):

“CellMark recognizes that a healthy environment is fundamental to our business. As such, we respect and comply with local legislation and environmental regulations in our global operations.”

“CellMark is a member of the National Association of Chemical Distributors (NACD) and as such, is committed to product stewardship and responsible distribution in every phase of chemical storage, handling, transportation and disposal.”

“We do not ship any restricted material, for example dual-use goods, without proper permit... Each employee is encouraged to share the Code of Conduct with our business partners. We expect them to acknowledge and respect it in the context of their own particular culture.”

(<https://www.cellmark.com/wp-content/uploads/2015/11/CellMark-Code-of-Conduct.pdf>)

CellMark’s [2020 Annual Sustainability Report](#), published in April 2021, highlighted maintaining Silver status in the Eco Vadis supply chain audit. The audit investigates four core areas: Labor & Human Rights, Environment, Ethics, and Sustainable Procurement (<https://ecovadis.com/ratings/>).

Following is a diagram showing to which countries the materials are sent.



An internet search resulted in a pertinent article posted on July 22, 2019:

New Frontiers in paper production

In mid-July, Crossroads Paper held a press conference to announce its plans to build a paper mill in the Salt Lake City area that will recycle old corrugated containers (OCC) and residential mixed paper into new paper that will then be used to make boxes for manufacturers, farmers and e-commerce companies.

The Sasine brothers’ partners include [...]Sweden-based Cellmark, which specializes in international trade and distribution of raw materials related to the global pulp and paper industry.

(<https://www.recyclingtoday.com/article/crossroads-paper-recycled-containerboard-salt-lake-valley/>)

The most recent update on the Crossroads Paper Plant was a press release published in Utah Business on June 22, 2021:

Peterson Real Assets makes growth equity investment in Crossroads Paper

Peterson Real Assets, a subsidiary of Peterson Partners, Inc. has made a growth equity investment in Crossroads Paper, a 100 percent recycled paper mill to be built in the Mountain West to serve for the growing demand for e-commerce, agriculture, and industrial packaging in the Western United States.

The Crossroads Paper site selection process is underway, with a final determination expected by year end.

Berg Mill Supply/Classic Fibres (Los Angeles, CA)

Berg Mill did not submit any traceability data, but did provide basic information about the company. Berg Mill purchases a number of materials from GreenWaste, including HDPE, Cardboard, Film Plastic, Mixed Plastic, Mixed Rigid Plastic, Newspaper, PET Clamshells, and PET.

Berg Mill Supply is a brokerage. Berg Mill elected to not complete the traceability form as to not provide proprietary data. Berg Mill provides general data on its website about the destination of its exports. Per the Berg Mill Supply website: (<https://bergmill.com/about/where-berg-mill-ships/>)

“Berg Mill Supply Co., Inc. redirects waste from material recovery facilities (MRF) in the United States to end users in international locations, where the material is processed and a new material is produced.”

“We sell material suitable for many different countries abroad such as China Indonesia Korea Vietnam Thailand India Myanmar Malaysia Pakistan Laos Costa Rica Brazil USA.”



Following is a diagram showing to which countries the materials are sent.

HDPE	Did not provide
LDPE Film	Did not provide
Mixed Plastic	Did not provide
Newspaper	Did not provide
PET	Did not provide
Cardboard	Did not provide

A blog posted by Berg Mill on December 2, 2019, stated the following:

“But it isn’t just China’s import restrictions that have caused a downswing in mixed paper value. The market started taking a dive after the U.S. economic downturn in 2010, nearly a decade ago. The good news is that new international markets are opening for U.S. mixed paper, for example India, where U.S. Corrugated, a box manufacturer that uses recovered fiber, is opening a plant in the coming months.”

(<https://bergmill.com/2019/12/02/turning-over-a-new-leaf-in-paper-recycling-with-ai-technology/>)

A blog posted by Berg Mill on August 12, 2019, stated the following:

“With no global regulations against these exports, it is poor and developing nations that will end up paying the price for cleaning up after the U.S.... For recycling to flourish to its full potential, we must process our recyclables in domestic, modern factories that are designed to properly shelter toxins from workers and the environment.”

(<https://bergmill.com/2019/08/12/your-recycling-may-not-be-going-where-you-think/>)

A blog posted by Berg Mill on June 10, 2019, stated the following:

“While recent news in recycling has been discouraging due to China’s National Sword and other foreign imported scrap bans, Berg Mill is ever committed to keeping your recyclables moving... Ultimately, domestic recycling has the potential to become superior to importing scrap both economically and environmentally.”

(<https://bergmill.com/2019/06/10/recycling-challenges-bring-opportunities-for-growth/>)

An internet search resulted in a pertinent article posted on June 3, 2018:

According to leading US recycling firm Berg Mill Supply, “all grades of plastic have seen a major shift to secondary markets” from 2016 to 2017, when China’s import restrictions came to light. In that period, Malaysia took in five times more polyvinyl chloride (PVC), while Vietnam more than doubled imports of polyethylene terephthalate (PET).

(<https://www.channelnewsasia.com/news/singapore/china-bans-plastic-waste-whats-next-for-recycling-in-singapore-10281026>)

Fibre Trade Inc. (Burlingame, CA)

Fibre Trade submitted partial traceability data for the mixed paper, newspaper and office paper it purchases from GreenWaste.

Fibre Trade is a brokerage. Per its website, Fibre Trade is a direct exporter of recovered paper, pulp and mineral products from the USA, Europe, Australia, New Zealand and Japan to affiliated paper mills all over the world. (<https://www.fibretrade.net/>)

Following is a diagram showing to which countries and regions the materials are sent.



An article in Recycling Today published on October 24th, 2016 illustrates Fibre Trade's engagement in the paper industry, stating that a staff member served as the specifications committee chair for Paper Stock Industries. (<https://www.recyclingtoday.com/article/pprc-2016-psi-paper-specifications-rates/>)

Newport CH International (Orange, CA)

Newport CH International did not submit traceability data but did provide basic information about the company. Newport purchases cardboard, mixed paper, mixed rigid plastics and film plastics from GreenWaste.

Newport both manufactures products and is a brokerage. Per its website, Newport focuses on the purchase and direct export sale of recyclable paper, plastics, as well as agricultural products. The following statement is made on the Newport CH International website.

“Our expertise is sourcing recyclable paper and plastics throughout North America. We are direct export shippers for the recycling industry, supplying numerous mills in China, as well as many other Asian countries. We provide quality raw material for their state of the art mills and manufacturing facilities.

Our overseas customers have the assurance of consistent supply and quality. Newport CH handles all logistics in-house, including shipping line rate negotiations, bookings and local drayage assistance. We take care of all required export documentation and banking transactions from our corporate office in Orange, California. To facilitate our exports to China we are AQSIQ certified and are an approved CCIC self-inspection company. In addition, we hold ISO 9001 and ISO 14001 certifications for our global quality management system, demonstrating our organizations continued commitment to quality. Newport CH strives to encourage growth in the recycling industry by being supportive and involved with numerous state and local government agencies.

Through our office in Shanghai, China we are able to work directly with the mill buyers in order to meet their requirements. We are in constant communication with our Shanghai office to stay apprised of any market changes or concerns with material arriving into China. .”

[\(http://newportch.com/\)](http://newportch.com/)

Following is a diagram showing to which countries the materials are sent.



An internet search resulted in a pertinent article posted on March 25, 2021:

Malaysia declares reported shipments of US plastic wastes to Asia are illegal

Governments are beginning to react to recent warnings issued by the Basel Action Network (BAN) of likely illegal exports of plastic waste from the US.

Due to recent amendments adopted by the 188 Parties to the Basel Convention, as of January 1, 2021, parties will be unable to import US plastic wastes unless they are very pure and unmixed. In its announcement, BAN highlighted recent data showing the US exports have not diminished despite the new rules and flagged three active shipments moving to Indonesia, Malaysia, and India.

In Indonesia, the government appears to be uncertain as to what to do about the two containers of plastic waste that have already arrived at the port of Belwan on board a Mediterranean Shipping Company (MSC) vessel from California, USA. Three more from the same exporter — Newport CH International, are also on their way to Indonesia.

[\(https://www.recycling-magazine.com/2021/03/25/malaysia-declares-reported-shipments-of-us-plastic-wastes-to-asia-are-illegal/\)](https://www.recycling-magazine.com/2021/03/25/malaysia-declares-reported-shipments-of-us-plastic-wastes-to-asia-are-illegal/)

An internet search resulted in a pertinent article posted on December 3, 2019:

Signals point to all-out recycled fiber ban in China

“We’re diversifying, we’re going to try to maximize our sales to other countries,” said Jimmy Yang, CEO of Newport Beach, Calif.-based Newport CH International, a major broker of recovered fiber to China. “We’re expecting volume to drop, that’s just reality – we enjoyed great markets for the past 20 years, and maybe things are going to change now.”

At the meeting, officials told the companies to anticipate lower import license volumes during the fourth quarter of this year, said Yang, whose business has at times moved up to 90% of its fiber to China. He noted Chinese officials said a ban is coming in 2021 for all paper grades except newsprint, which could continue to enter the country for newspaper production.

[\(https://resource-recycling.com/recycling/2019/12/03/signals-point-to-all-out-recycled-fiber-ban-in-china/\)](https://resource-recycling.com/recycling/2019/12/03/signals-point-to-all-out-recycled-fiber-ban-in-china/)

An internet search resulted in a pertinent article posted on April 3, 2019:

China's recyclers look at Latin America, Caribbean

Hamilton Wen, director of the plastics division at trading firm Newport CH International LLC in Orange, Calif., said in a panel at the conference that recyclers face complex questions as they analyze where it makes business sense to recycle and also react to governments worldwide limiting imports of scrap.

"It's definitely cheaper in these other countries, but how long are they going to let you do it," he said. "I think eventually, end game, it probably will come back here [to the United States]. Whatever we're creating probably we should recycle it here"... added that the business case can make it too expensive to do some types of recycling in higher-cost countries.

<https://www.plasticsnews.com/article/20190403/NEWS/190409967/china-s-recyclers-look-at-latin-america-caribbean>

An internet search resulted in a pertinent article posted on February 28, 2018:

Exporters talk Chinese ban's operational and financial impacts

Newport CH International, like many exporters, has made dramatic operational changes since the ban impact started to spread. The company acts as a broker, so it tries to find markets offering the best price and stable demand. For the past 20 years, that has consistently been China, Wen said. The only variation was where inside China the company would send the material.

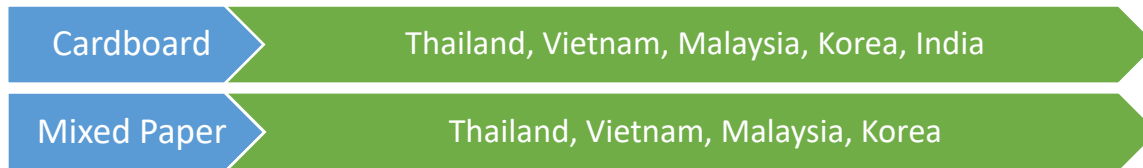
“Now, that’s completely off the table as far as scrap, so we’ve had to completely reshift, and look for new markets basically anywhere in the world,” Wen said. “Places we’ve never looked for previously, but now we’re having to travel to look for processors, look for end users. It’s pretty much a complete upheaval of our entire plastic brokerage business.”

Wen said there are not enough end users to handle all the material on the market, so they are able to demand higher quality, whereas it used to be a seller's market. Wen predicts markets will develop for low-grade plastics, although they will take time to develop. He said there is already a little more demand coming back for the materials as a result of market development that's taken place since the ban, and that further development is currently underway.

OGO Fibers (Ontario, Canada)

OGO Fibers submitted partial traceability data for the mixed paper and cardboard it purchases from GreenWaste.

OGO Fiber is a brokerage and performs secondary processing in the form of pulpifying and manufacturing. OGO Fibers confirmed in 2020 that the material is never double brokered and all the material goes directly to an overseas mill with a direct order. Following is a diagram showing to which countries the materials are sent.



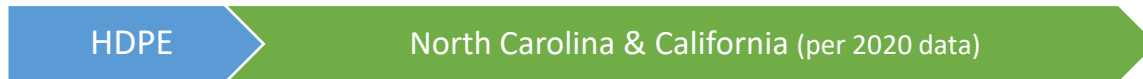
Per its website, OGO Fibers has received ISO 9001 certification (for quality management system) and holds both AQSIQ and CCIC licenses. (<http://www.ogofibers.com/ps>)

An internet search shows that OGO Fibers is a Journal of Commerce Top Exporter (number 100). The article, posted on May 25, 2020, in which this information appears discusses the challenges of both trade policy uncertainty and asymmetrical market conditions between international and domestic transportation modes. (http://www.joc.com/maritime-news/top-100-us-importer-and-exporter-rankings-2019_20200525.html)

Envision Plastics (Chino, CA)

Envision Plastics is a leading recycler of HDPE plastics and supplier of Post Consumer Resin (PCR). Envision purchases HDPE from GreenWaste and washes, chips and pelletizes the material. Envision lists six different products that it creates from recovered plastic: Ecoprime®, Natural Color, Mixed Color, Oceanbound Plastic, Prisma®, and Deodorized.

Following is a diagram showing to which countries the materials are sent.



Envision Plastics is headquartered in Reidsville, North Carolina and has a West Coast plant in Chino, California. Envision’s parent company, Altium Packaging (previously Consolidated Container Company) includes “Act with Integrity and in Compliance” as one of its core values. (<https://altiumpkg.com/why-altium/our-guiding-principles/>)

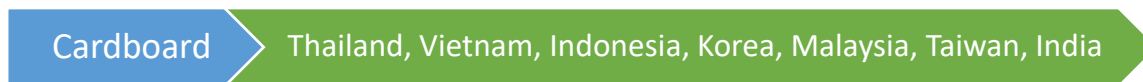
Envision Plastics OceanBound Plastic recycling program aims to remove 10 million pounds of plastic before it enters the ocean at “At Risk Zones” defined by areas within 50km of coastline, with a focus on communities lacking formal waste collection. According to their FAQ webpage on the program, Envision Plastics works with partners “to professionalize the collection stream, collect this plastic, and manufacture it into usable products.” (<https://envisionplastics.com/oceanbound-plastic/>)

Super Link Plastic (Oakland, CA)

Super Link Plastic submitted partial traceability data as well as basic information about the company. Super Link purchases cardboard from GreenWaste.

Super Link is a brokerage. Per its website, Super Link sources scrap plastic, cardboard, mixed paper, e-waste, and other recyclables from post-industrial, post-commercial and post-consumer waste streams. Super Link Plastic disclosed cardboard exports are sent to secondary brokerage in Vietnam, Korea, Thailand, India, Indonesia, Taiwan and Malaysia. Per Super Link, all processing occurs in facilities following local environmental laws and policy.

Following is a diagram showing to which countries the materials are sent.



No further pertinent information was found on this company and/or its exports via a simple internet search.



City of Palo Alto City Council Staff Report

(ID # 13847)

Meeting Date: 1/24/2022

Title: Contracts Awarded by the City Manager and Procurement Officer

From: City Manager

Lead Department: Administrative Services

Recommendation

This is an information report, no action is required.

Discussion

Palo Alto Municipal Code (PAMC) Section 2.30.710 requires the City Manager to provide a biannual report to Council consisting of contracts awarded by the City Manager, Procurement Officer or other designated employees for:

- 1) General and professional services in excess of \$25,000 (Attachment B); and
- 2) Public works and goods in excess of \$85,000 (Attachment A).

Attachment A (regarding contracts for goods in excess of \$85,000) and Attachment B (regarding contracts for services in excess of \$25,000) fulfill this PAMC reporting requirement for the period from July 1, 2021 through December 31, 2021.

The contracts in Attachment A consist of eight (8) distinct awards for goods, and the contracts in Attachment B consist of 41 distinct awards for a wide range of services. These awards are a core element of the efficient and effective provision of services by the City to our community and reflect extensive coordination and prudent decision-making among operating departments, the Administrative Services Department, the City Attorney's Office, and City Clerk's Office.

For informational purposes, Attachment C provides excerpts from the Palo Alto Municipal Code that set forth the authority designated by Council to the Procurement Officer to award and sign contracts (PAMC 2.30.200), City Manager to award and sign contracts (PAMC 2.30.210), and exemptions from competitive solicitation (PAMC 2.30.360 and 2.30.900), as noted for certain contracts listed in Attachments A and B.

It should be noted, that the City officially sunset the designation of a local emergency on June 31, 2021 in response to the ongoing coronavirus pandemic. However, the State declaration of emergency has remain in effect during this reported period.

Attachments:

- **Attachment15.a:** Attachment A: Material Contracts Awarded by CPO & CM July 1, 2021 through December 31, 2021
- **Attachment15.b:** Attachment B: Services Contracts Awarded by CPO & CM July 1, 2021 through December 31, 2021
- **Attachment15.c:** Attachment C: Excerpts from the Palo Alto Municipal Code

ATTACHMENT A
Goods Contracts Awarded (\$85,000 through \$250,000 per year)
July 1, 2021 to December 31, 2021

Contract Award To	Award Date	Award Amount	Bidding Exemption or Number of Bids Sent/Received	Description
ADVANCED CONTROL SYSTEMS, INC.	07/16/2021	233,333.33	2.30.360(d)	Purchase of SCADA Equipment-Year 3
HOWDEN ROOTS LLC	12/06/2021	93,249.48	2.30.360 (d)	Spare parts for Aeration Blowers
LN CURTIS & SONS	07/14/2021	120,000.00	2.30.360(d)	Various fire, safety & rescue equipment - Year 2
NATIONAL AUTO FLEET GROUP	10/07/2021	177,997.11	2.30.360 (j)	Purchase of one new 2022 Ford F-550 SuperDuty
OLIN CHLOR ALKALI PRODUCTS	07/26/2021	124,069.50	92/3	Purchase order for 12.5% Bulk Sodium Hypochlorite- Year 2
PIVOT INTERIORS INC.	11/22/2021	125,811.31	2.30.360(j)	Herman Miller Furniture for the Water Quality Control Plant
TMT ENTERPRISES INC	07/14/2021	150,000.00	518/3	Sand Rock Gravel Water Gas Waste- Year 2
WATCHGUARD VIDEO	12/21/2021	117,844.00	2.30.360(j)	Watchguard MAV and BWC units for Police Department

ATTACHMENT B
Service Contracts Awarded (\$25,000 through \$85,000 per year)
July 1, 2021 to December 31, 2021

Contract Award To	Award Date	Award Amount	Bidding Exemption or Number of Bids Sent/Received	Description
ACCELA INC	11/16/2021	26,673.97	2.30.360(b)	5-Year Accela Mobile Office M&S and MS
ASSETWORKS, INC.	12/21/2021	38,793.31	2.30.360(d)	Annual software maintenance and support
BEST BEST & KRIEGER LLP	12/21/2021	25,000.00	2.30.360(g)	Professional Legal Services
BING HUO	12/01/2021	52,600.00	4/4/	Implementation of the CITY's Sustainability and Climate Action Plan
BSI EHS SERVICES AND SOLUTIONS	10/25/2021	40,000.00	2.30.360(i)	Return to Work Consultant
CALTRAIN	12/14/2021	77,206.50	2.30.360(d)	Go Pass Program
CAREFUL MOVERS INC	11/23/2021	25,000.00	4/4	Furniture Relocation Services
CDW GOVERNMENT	08/02/2021	37,530.00	2.30.360 (j)	Armorblox: Inbound
CDW GOVERNMENT	12/16/2021	72,696.58	2.30.60(j)	Procurement of CrowdStrike software and services
CINTAS CORPORATION	07/27/2021	30,000.00	2.30.360(j)	Electric Operations Uniform Rental
CINTAS CORPORATION	07/28/2021	57,000.00	2.30.360(j)	Water Gas Wastewater Operations Uniform Rental
COMFORT INTERNATIONAL INC	11/01/2021	36,737.00	6/6	Annual HVAC Maintenance Services- 3 Year Term
COOPER COMPLIANCE CORPORATION	09/01/2021	39,900.00	2.30.360(i)	WECC/NERC Consultant
DLT SOLUTIONS LLC	08/24/2021	37,224.30	3/3	AutoCAD Government Single User
EDGEWORTH INTEGRATION LLC	11/23/2021	28,073.68	2.30.360(i)	Hardware update Police Department camera system
FLYNN RESOURCE CONSULTANTS INC	09/29/2021	49,900.00	2.30.360(i)	Consulting Services - CAISO
GARDA CL WEST, INC.	10/28/2021	33,495.00	2.30.360(b)	Armored Truck Transport Services
GLOBAL RENTAL COMPANY INC	09/24/2021	43,000.00	3/3	Rental of AA55 Altec Bucket Truck

ATTACHMENT B
Service Contracts Awarded (\$25,000 through \$85,000 per year)
July 1, 2021 to December 31, 2021

Contract Award To	Award Date	Award Amount	Bidding Exemption or Number of Bids Sent/Received	Description
GROUP 4 ARCHITECTURE RESEARCH & PLANNING INC.	09/28/2021	84,910.00	271/13	Design services to install 3 new Automated Material Handling (AMH) Systems at the CITY's College Terrace, Children's, and Downtown Libraries.
INTEGRATED DESIGN 360 LLC	07/01/2021	50,000.00	2.30.360(i)	Dewatering Monitoring Services
ITECH SOLUTION	12/16/2021	37,300.28	3/3	Data Cabling Replacement
JACKSON LEWIS PC	08/27/2021	85,000.00	2.30.360(g)	Professional Legal Services
JARVIS, FAY & GIBSON, LLP	07/07/2021	50,000.00	2.30.360(g)	Professional Legal Services
JARVIS, FAY & GIBSON, LLP	07/12/2021	25,000.00	2.30.360(g)	Professional Legal Services
JARVIS, FAY & GIBSON, LLP	08/18/2021	30,000.00	2.30.360(g)	Professional Legal Services
KIS	10/18/2021	33,685.00	3/3	Subscription Barracuda CloudGen Firewall Renewal
LENAHAN SLATER PEARSE & MAJERNIK	09/21/2021	35,000.00	2.30.360(g)	Professional Legal Services
LIEBERT CASSIDY WHITMORE	07/12/2021	30,000.00	2.30.360(g)	Professional Legal Services
LIEBERT CASSIDY WHITMORE	09/20/2021	40,000.00	2.30.360(g)	Professional Legal Services
MBS ENGINEERING, INC.	11/10/2021	26,202.25	6/1	Recoating Gas Main line- Matadero Creek
METROPOLITAN PLANNING GROUP INC	09/28/2021	31,680.00	2.30.360(h)	1700 Embarcadero Rd - Site & Design-Cost Recovery
MOORE IACOFANO GOLTSMAN INC	10/08/2021	38,073.00	2.30.360(i)	Baylands CEQA study
NORTHWEST LINEMAN COLLEGE	12/16/2021	85,000.00	2.30.360(d)	Apprentice Training for the Utilities Department
PALO ALTO HISTORICAL ASSOCIATION	08/05/2021	35,000.00	2.30.360(i)	Archive of the CITY's collection and facilitate public access to information and materials relating to the history of Palo Alto.

ATTACHMENT B
Service Contracts Awarded (\$25,000 through \$85,000 per year)
July 1, 2021 to December 31, 2021

Contract Award To	Award Date	Award Amount	Bidding Exemption or Number of Bids Sent/Received	Description
PG&E	07/15/2021	75,000.00	2.30.360(d)	PG&E (Training Services) Year 2
PROJECT SENTINEL	12/17/2021	70,954.00	2.30.360 (b)	Mediation Services for the Palo Alto Mediation Program- Year 1
RINCON CONSULTANTS, INC.	10/28/2021	125,383.00	2.30.360(h)	200 Portage Ave for an EIR-Deposit based contract
RINCON CONSULTANTS, INC.	10/28/2021	38,767.00	2.30.360(h)	1700 Embarcadero Rd - Initial Study- Mitigated Negative Declaration- Cost Recovery
RINCON CONSULTANTS, INC.	10/28/2021	40,355.00	2.30.360(h)	2850 West Bayshore for a Class 32 Categorical Exemption-Deposit Based Contract
STANFORD UNIVERSITY KZSU	07/19/2021	25,000.00	2.30.360(i)	Broadcast City Council Meetings
YOUTH COMMUNITY SERVICES	11/16/2021	50,000.00	2.30.360(i)	Youth Connectedness Initiative

ATTACHMENT C

Excerpts from the Palo Alto Municipal Code

Chapter 2.30 – Contracts and Purchasing Procedures

2.30.200 Procurement officer contract award authority.

The Procurement Officer may award and sign the following contracts:

(a) Public Works Contracts. Public works contracts, where the term does not exceed three years, and the contract price and any price contingency established for change orders, but excluding sales tax or use tax, do not exceed \$85,000.00 in the first contract year, and do not exceed the sum of \$85,000.00 and any unexpended monies carried forward from a prior contract year, in any subsequent contract year.

(b) Contracts for Goods. Contracts to purchase goods, where the term does not exceed three years, and the contract price and any price contingency established for change orders, but excluding sales tax or use tax, do not exceed \$85,000.00 in the first year, and do not exceed the sum of \$85,000.00 and any unexpended monies carried forward from a prior contract year, in any subsequent contract year.

(c) General Services Contracts. General services contracts, where the term does not exceed three years, and the contract price and any price contingency established for change orders or additional services, but excluding sales tax or use tax, do not exceed \$85,000.00 in the first contract year, and do not exceed \$85,000.00 and any unexpended monies carried forward from a prior contract year, in any subsequent contract year.

(d) Professional Services Contracts. Professional services contracts, where the term does not exceed three years, and the contract price, and any price contingency established for additional services, but excluding sales tax or use tax, do not exceed the sum of \$85,000.00 in the first contract year, and do not exceed the sum of \$85,000.00 and any unexpended monies carried forward from a prior contract year, in any subsequent contract year.

(e) Software and Hardware Purchase, Licensing, Maintenance and Support Contracts. Notwithstanding Subsection 2.30.200(c), the Procurement Officer may award and sign contracts other than general services agreements, including, without limitation, vendor-based standard form hardware and software purchase and licensing contracts, for the purchase of hardware and software, the licensing of software, and the maintenance and support of hardware and software, where the term of licensing or maintenance and support services does not exceed five years and the contract price, excluding sales tax or use tax, does not exceed \$85,000.00 per year in the first contract year and does not exceed the sum of \$85,000.00 and any unexpended monies carried forward from a prior contract year, in any subsequent contract year. The contracts referred to herein may include contracts for data storage services, which shall be subject to the city's information security policies, terms, conditions and other requirements established by the chief information officer with the concurrence and approval of the City Attorney.

(Ord. 5494 § 9, 2020: Ord. 5387 § 1 (part), 2016: Ord. 4827 § 1 (part), 2004)

2.30.210 City Manager contract award authority.

The City Manager may award and sign the following contracts:

- (a) **Public Works Contracts.** Public works contracts, where the term does not exceed three years, and the contract price and any price contingency established for change orders, but excluding sales tax or use tax, do not exceed \$250,000.00 in the first contract year, and do not exceed the sum of \$250,000.00 and any unexpended monies carried forward from a prior contract year, in any subsequent contract year.
- (b) **Contracts for Goods.** Contracts to purchase goods, where the term does not exceed three years and the contract price and any contingency established for change orders, but excluding sales tax or use tax, do not exceed \$250,000.00 in the first contract year, and do not exceed the sum of \$250,000.00 and any unexpended monies carried forward from a prior contract year, in any subsequent contract year.
- (c) **General Services Contracts.** Contracts for services associated with the leasing or licensing of personal property other than hardware or software, where the term does not exceed seven years, and the contract price and any price contingency established for change orders, but excluding sales tax or use tax, do not exceed \$85,000.00 in the first contract year, and do not exceed the sum of \$85,000.00 plus any unexpended monies carried forward from a prior contract year, in any subsequent contract year.
- (d) **Contracts for Studies and Services Related to Private Development.** Professional services contracts for: (1) the preparation of environmental assessments or other studies deemed necessary by the director of planning and development services for the processing of applications for private development projects, or (2) inspection and plan review services deemed necessary by the director of planning and development services to evaluate conformity of private development projects with applicable building codes, regardless of the cost or term thereof, provided the applicant for the private development project agrees, in writing, to bear responsibility for the entire contract cost, and the contract does not require the expenditure of city funds in any amount.
- (e) **Rewards.** The City Manager may offer and pay rewards where the amount of the reward does not exceed \$25,000.00, in accordance with the procedures of Section 2.30.800.
- (f) **Emergency Contracts.** The City Manager is authorized to expend city funds for emergency contracts, as defined in Section 2.30.160, without limitation on the contract cost or amount and without following the contract solicitation and award procedures otherwise required by this chapter, provided that any procurement of goods and services obtained during an emergency declared by the Federal Emergency Management Agency shall comply with applicable FEMA Public Assistance Program's procurement orders, rules, regulations, guidelines and control procedures for cost reimbursement purposes. Expenditures made during an emergency must be reported to the Council at the next regular meeting if approval for such expenditures would otherwise have been made by the Council. The City Manager may issue a verbal report to the Council before a written report is delivered.
- (g) **Contracts to Rent, Lease, License, Acquire, Transfer or Purchase Interests in Real Property from Other Parties.** Contracts for the rental, leasing, licensing, or purchase by installment interests in real property from other parties for a term of seven years or less, where the contract price does not exceed \$85,000.00 per year, or to encumber or transfer any interest in real property from other parties for any term of years. The City Manager may enter into and sign a contract to acquire or purchase an interest in real property, where the contract price does not exceed \$85,000.00.
- (h) **Contracts to Rent, Lease, or License City Real Property to Other Parties.** The authority granted under this Section is distinct from the authority of the director of community services to grant individuals and groups permits for the exclusive temporary use of buildings and facilities located in, and the areas of, city parks and open spaces, as described in Chapter 22.04 of this municipal code or in the park and open space regulations. The City Manager may award and sign contracts to rent,

lease or license city real property to other parties regardless of the price for a term not exceeding three years. Notwithstanding the preceding sentence, the City Manager may enter into and sign contracts for the rental, lease or licensing of real property at the Cubberley Community Center for terms of up to five years.

(i) **Contracts to Provide Municipal Services to other Public Entities or Utilities.** A contract to provide municipal services and functions to any other public agency, public utility or other public entity in any amount for a term not exceeding three years, provided the contract is in compliance with all Council-adopted policies covering such contracts. The authority granted herein does not include the authority of the City Manager to add permanent employee positions.

(j) **Contracts Providing for Indemnity or Risk of Loss.** The City Manager, with the concurrence and approval of the City Attorney and the insurance risk manager, may enter into and sign contracts, otherwise within the limits of his or her authority under Section 2.08.140 of this municipal code, that provide for the city or its officers or employees to defend, indemnify, or assume the risk of damage, loss, or liability for, or subrogate to any other contracting party respecting claims, demands, actions, losses or liabilities arising from the city's performance or non-performance under the contract.

(k) **Wholesale Utility Commodities and Services Contracts.** Wholesale utility commodities and services contracts, where the term does not exceed five years and the contract price does not exceed \$250,000.00 in any contract year.

(l) **Software and Hardware Purchase, Licensing, Maintenance and Support Contracts.** Notwithstanding Subsection 2.30.210(c), the City Manager may award and sign contracts other than general services agreements, including, without limitation, vendor-based standard form hardware and software purchase and licensing contracts, for the purchase of hardware and software, the licensing of software, and the maintenance and support of hardware and software, where the term of licensing or maintenance and support services does not exceed seven years and the contract price, excluding sales tax or use tax, does not exceed \$85,000.00 per year in the first contract or fiscal year and does not exceed the sum of \$85,000.00 and any unexpended monies carried forward from a prior fiscal year, in any subsequent contract or fiscal year. The contracts referred to herein may include contracts for data storage services, which shall be subject to the city's information security policies, terms, conditions and other requirements established by the chief information officer with the concurrence and approval of the City Attorney.

(m) **Other Contracts.** All other types of contracts for which the contract term does not exceed three years and the total expenditure by the city does not exceed \$85,000.00 in the first contract or fiscal year, and does not exceed the sum of \$85,000.00 and any unexpended monies carried forward from a prior fiscal year, in any subsequent contract or fiscal year.

(Ord. 5494 §§ 3, 10, 2020: Ord. 5387 § 1 (part), 2016: Ord. 4827 § 1 (part), 2004)

2.30.360 Exemptions from competitive solicitation requirements.

The following are exemptions from the informal and formal competitive solicitation requirements of this chapter, except as otherwise provided. These exemptions will be narrowly interpreted and applied. The department requesting an exemption shall provide all relevant information supporting the application of the exemption to the Procurement Officer. Based upon this information, the Procurement Officer shall make a recommendation to the City Manager and the City Manager shall determine whether an exemption from the competitive solicitation requirements applies. Nothing herein is intended to preclude the use of competitive solicitations, as practicable.

(a) Emergency Contracts, provided that any procurement of goods and services obtained during an emergency declared by the Federal Emergency Management Agency shall comply with applicable FEMA Public Assistance Program's orders, rules, regulations, guidelines and control procedures for cost reimbursement purposes.

(b) Whenever solicitations of bids or proposals would for any reason be impracticable, unavailing or impossible, provided that in the case of a public works project, the project is not otherwise required by the charter to be formally bid. These situations are those where solicitations of bids or proposals would not be useful or produce any operational or financial advantage for the city. Situations where solicitations of bids or proposals would be impracticable, unavailing or impossible, include, without limitation, the following:

(1) Contract specifications cannot be drawn in a way that would enable more than one vendor, consultant or contractor to meet them;

(2) Due to circumstances beyond the control of the city, the time necessary to use the competitive solicitation process, procedures and requirements would result in a substantial economic loss to the city or the substantial interference with a required city operation;

(3) Special conditions attached to a grant, donation or gift requires the use of particular goods and/or services.

All requests for exemptions under this subsection shall be supported by written documentation (facsimile or electronic mail may be used), approved by the department head and the Procurement Officer.

(c) Where competitive bids or requests for proposals have been solicited and no bid or proposal has been received, or where no bid or proposal meeting the requirements of the invitation to bid or request for proposals has been received, provided that, in the case of a public works project, the project is not otherwise required by the charter to be formally bid.

(d) Contracts for goods, wholesale commodities and services, general services or professional services available from only one source, where the Procurement Officer has determined, in writing, there is no adequate substitute or equivalent provider. Examples of acceptable sole source acquisitions or purchases may include, without limitation: equipment or services for equipment, for which there is no comparable competitive product or service except that provided by the equipment manufacturer, distributor or dealer; proprietary products sold directly by the manufacturer; a component or replacement part, for which there is no commercially available substitute and which can be obtained only from the manufacturer; goods where there is only one authorized distributor in the area; and goods where compatibility with goods in use by the city is an overriding consideration. All requests for sole source acquisitions or purchases shall be supported by written documentation (facsimile or electronic mail may be used), approved by the office or department head, and forwarded to the Procurement Officer.

(e) Contracts for goods where, pursuant to Section 2.30.900, the City Manager has determined that standardization of the supplies, materials or equipment is permissible.

(f) Placement of insurance coverage and surety bonds.

(g) Legal services contracts, including, without limitation, the services of outside counsel, consultants and other experts needed for litigation, administrative or other legal proceedings.

(h) Professional services contracts for private development related studies and services whenever the services are funded wholly by private developers.

(i) Professional services contracts, where the estimated total expenditure by the city, regardless of term, does not exceed \$50,000.00.

(j) Cooperative purchases, with one or more other public agencies or through a cooperative purchasing agency, provided: (i) the services are solicited using methods substantially similar to those required by this chapter, as determined by the Procurement Officer; and (ii) the contract is consistent with the requirements specified in this municipal code.

(k) The use of another governmental or public agency's contract or substantially the same contract terms provided: (i) the agency uses a solicitation method substantially similar to the method required by this chapter; (ii) the contract is consistent with the requirements specified in this municipal code; and (iii) the Procurement Officer determines that the city will realize overall value to utilizing the other agency's contract or contract terms compared to the city performing its own solicitation.

(l) Contracts with, or solicited on the city's behalf by, Northern California Power Agency, Transmission Agency of Northern California, and Western Area Power Administration to procure wholesale utility commodities and services that meet the requirements of Section 2.30.340(d) or 2.30.360(k).

(m) Contracts with Pacific Gas and Electric Company and the California Independent System Operator Corporation for energy transmission services to the extent necessary and expedient to provide for the general health, safety and welfare of the city's utility customers.

(n) Contracts with any public agency or governmental body to construct a public work, where the Procurement Officer determines the public agency or governmental body has used methods similar to those required by this chapter to contract for the public work.

(o) Contracts with any public utility holding a certificate of public convenience and necessity or any entity holding a cable service or video service franchise pursuant to chapter 2.10 of this municipal code to construct a public works, where such works involves property of such public utility or cable service or video service franchisee and is otherwise of direct concern to both the city and such public utility or cable service or video service franchisee, provided that the project is not otherwise required by the charter to be formally bid.

(p) Contracts with private developers to construct public improvements in connection with their development projects, even if the city contributes funds to the improvement project, provided that the projects are not otherwise required by the charter to be formally bid.

(q) Projects, where the public work is performed by the city with its own employees.

(r) Contracts, where the estimated total expenditure by the city does not exceed \$10,000.00.

(s) Contracts with entities to procure at wholesale prices utility commodities and services under a city "feed-in tariff" energy program that meets the requirements of Section 2.30.340(c).

(t) Professional services contracts in relation to personnel matters for: recruitment consultants, workplace investigations, threat assessments, conflict intervention, and industrial safety.

(Ord. 5494 § 21, 2020: Ord. 5387 § 1 (part), 2016: Ord. 5148 § 2, 2012: Ord. 5081 § 1, 2010: Ord. 4827 § 1 (part), 2004)

PART 10 – STANDARDIZATION

2.30.900 Standardization.

Where the City Manager has determined that it is required by the health, safety or welfare of the people or employees of the city, or that significant costs savings have been demonstrated, the standardization of supplies, materials or equipment, including, without limitation, information technology property, for purchase or to be used in a public works project is permitted and the supplies, materials or equipment specifications may specify a single brand or trade name. The City Manager may consider the following factors in determining to standardize on a single brand or trade name:

- (a) Repair and maintenance costs would be minimized;
- (b) User personnel training would be facilitated thereby;
- (c) Supplies or spare parts would be minimized;
- (d) Modifications to existing equipment would not be necessary;
- (e) Training of repair and maintenance personnel would be minimized; and
- (f) Matching existing supplies, materials or equipment is required for proper operation of a function or program.

(Ord. 5494 § 40, 2020: Ord. 5387 § 1 (part), 2016: Ord. 4827 § 1 (part), 2004)



City of Palo Alto City Council Staff Report

(ID # 13782)

Meeting Date: 1/24/2022

Title: Update on the Implementation of the Deconstruction and Construction Materials Management Ordinance (Ordinance 5472/ Palo Alto Municipal Code Title 5, Chapter 5.24).

From: City Manager

Lead Department: Public Works

Recommendation

This is an informational report only and no Council action is required.

Background

In August 2018, Council accepted the [2018 Zero Waste Plan](#) containing 48 initiatives to help the City meet its sustainability and climate action goals. In June 2019, Council approved the Deconstruction and Construction Materials Management Ordinance (Deconstruction Ordinance, [Ordinance 5472/PAMC Title 5, Chapter 5.24, ID#10148](#)) with the effective date of July 1, 2020. The ordinance aligns with the 2018 Zero Waste Plan and implements key provisions including Initiative #1, Require Deconstruction and Source Separation of Construction Materials; Initiative #2, Direct Mixed Construction Materials to High Diversion Construction Materials Recycling Facilities; and Initiative #4, Construction Project Recycling Technical Assistance. In addition, implementing and expanding the Deconstruction Ordinance is a key action identified in the [Sustainability and Climate Action Plan](#) to support diverting waste from landfills.

The Deconstruction Ordinance applies to all residential and commercial projects undergoing a whole structure demolition needing to submit a building permit application for deconstruction on or after July 1, 2020. The objectives of the ordinance are to 1) increase salvage/reuse to the highest extent possible and 2) increase the amount and quality of recyclable materials for all construction and demolition projects, beginning with whole structure deconstruction projects.

During the development of the ordinance, staff estimated based on historical data that it would affect approximately 114 projects annually.

Discussion

Outreach and education were developed explaining the ordinance requirements and resources available and sent to stakeholders prior to the ordinance's effective date. Beginning July 2020,

staff proactively reached out to homeowners, general contractors, and architects when building permit applications were submitted to provide information on the newly enacted ordinance requirements and to schedule video conference calls to explain the ordinance and answer questions from the applicants and their contractors. When the deconstruction permits were issued, staff reached out again to meet the general contractors and subcontractors hired for deconstruction onsite to review the requirements, walk through the property together, and ensure expectations were communicated. During deconstruction, staff inspected each project site to document progress, reiterate requirements for source separation and hauling of single stream materials, and address any concerns observed.

During the development of the ordinance, staff estimated that the new ordinance would affect approximately 114 projects annually (100 residential and 14 commercial); however, in Fiscal Year 2021, the first year of the ordinance, the City's Development Center only received 44 building permit applications for projects that involved whole structure demolition (41 residential and 3 commercial) covered under the Deconstruction Ordinance. The main variable that may have impacted the lower number of applications is the COVID-19 pandemic. As summarized in Graph 1, of the total building permit applications in Fiscal Year 2021, the City issued 18 deconstruction permits (16 residential and 2 commercial), and 16 buildings were removed (15 residential and 1 commercial). Staff expects the number of building permit applications to increase in Fiscal Year 2022 while the economy and the development industry slowly recover from the COVID-19 pandemic, which postponed a significant number of projects. Additionally, it is expected that permits for many applications received in Fiscal Year 2021 will be issued in Fiscal Year 2022.

Graph 1: Fiscal Year 2021 Deconstruction Permit Application and Project Status

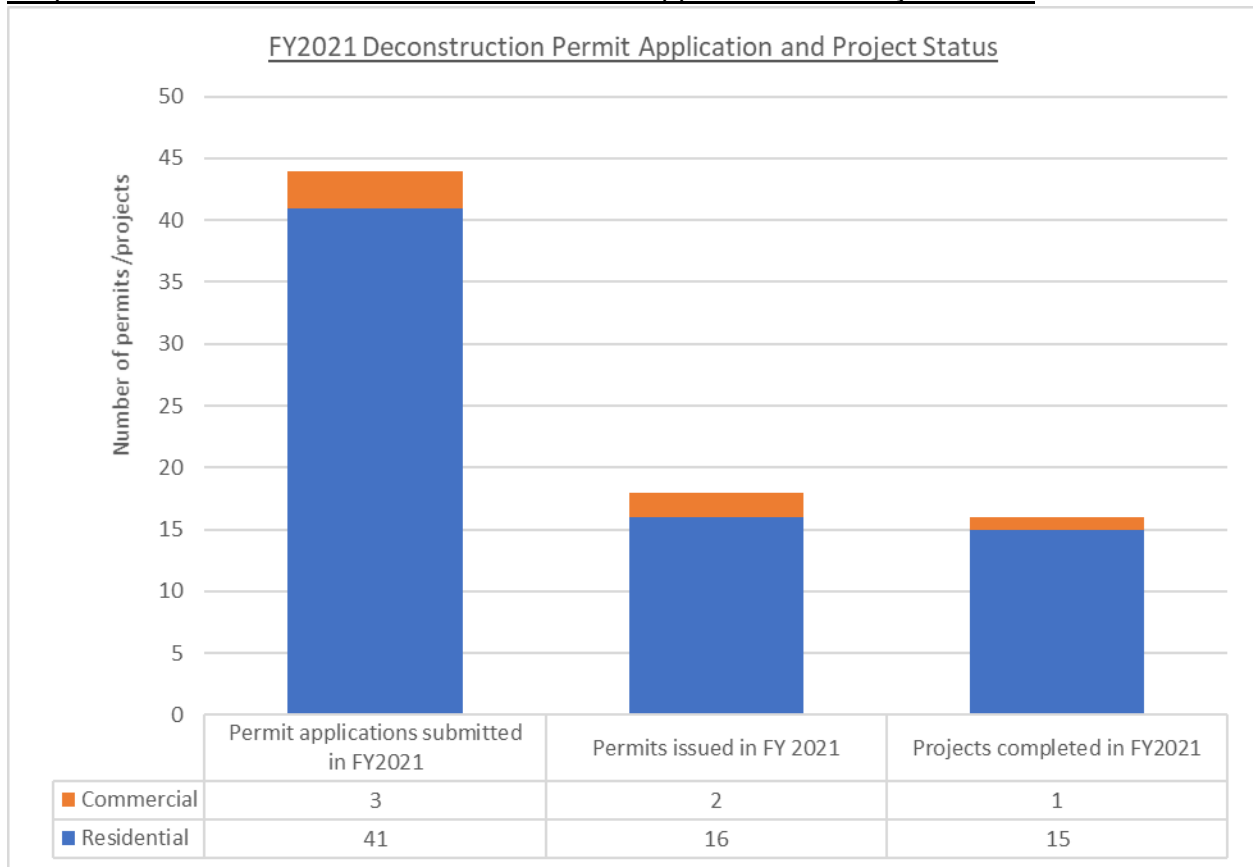
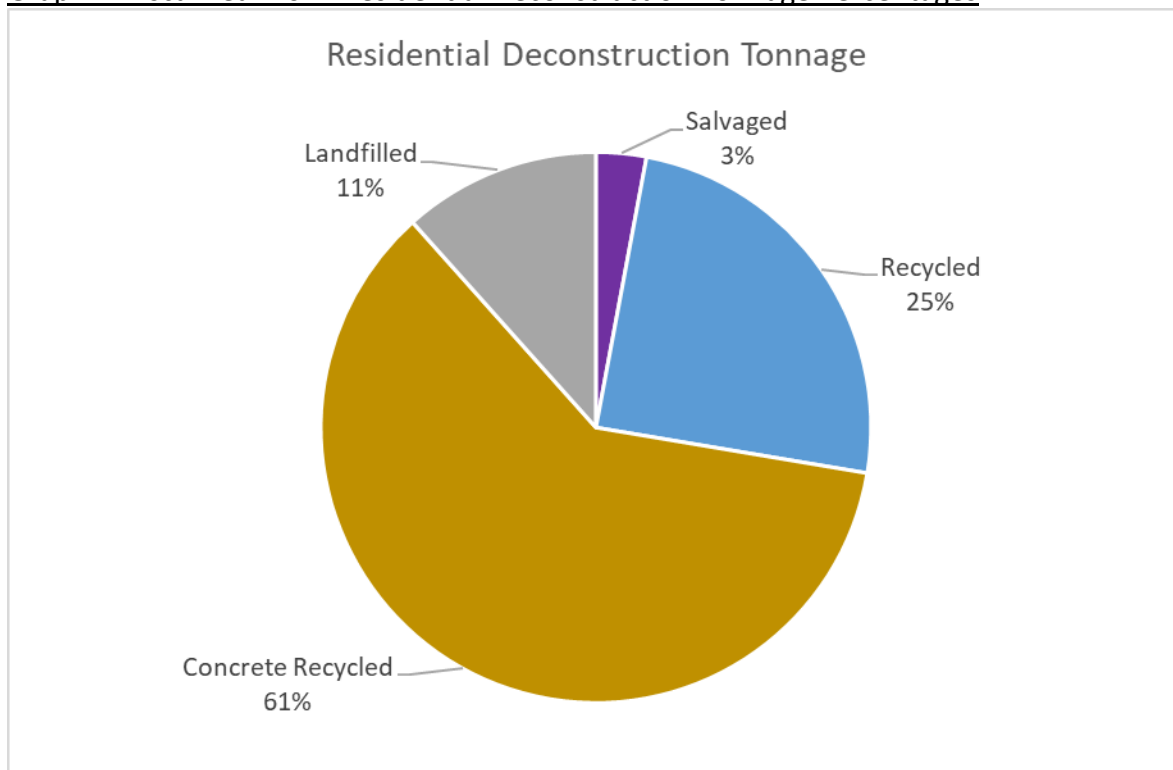


Table 1 below summarizes the tonnages generated from the 15 residential projects that received building permits and had the whole structures removed. The tonnages of materials were documented in Green Halo Systems, a waste management tracking tool for development projects required by the Planning and Development Service Department. Graph 2 provides a visual of the percentage of material categories from these projects. In summary, although the salvaged materials recovered for reuse (mostly lumber, cabinets, doors, and windows) accounted for only three percent of the materials from the 15 residential projects, only eleven percent of the materials were landfilled. Examples of materials landfilled included insulation and painted wood. Materials recovered for recycling included clean wood debris and drywall aside from concrete.

Table 1: Fiscal Year 2021 Residential Deconstruction Tonnage

	Tonnage	Percentage (%)
Salvaged for Reuse	47	3.0
Recycled	391	24.7
Concrete Recycled	961	60.7
Landfilled	184	11.6
Total	1,582	

Graph 2: Fiscal Year 2021 Residential Deconstruction Tonnage Percentages



Palo Alto's Deconstruction Ordinance is the first of its kind in the United States that covers all commercial and residential projects undergoing whole structure removal regardless of the age of the buildings. Although some deconstruction projects were occurring voluntarily in the City prior to the ordinance, the requirements and process were new to most permit applicants and contractors and, consequently, require contractors to learn the new process. Staff emphasizes continuous communication, outreach, and education with each covered project and the stakeholders involved. Oversight and instances of noncompliance were documented and addressed by Zero Waste staff while continuing to streamline and improve the implementation of the ordinance.

Staff will continue to implement requirements and monitor qualifying projects, and in the coming fiscal year will explore how to potentially expand the Deconstruction Ordinance to include more projects through a future Council action.

Resource Impact

The resources undertaken for the implementation of the new ordinance were primarily staff time to develop outreach and education as well as communication with stakeholders including project owners and contractors for each project, and collaboration with City staff in different departments and industry representatives. In Fiscal Year 2021, this effort totaled approximately 0.3 full time equivalents of staff time.

Stakeholder Engagement

Outreach was conducted during Fiscal Year 2021 as the new Deconstruction Ordinance was implemented and included communicating directly with stakeholders with upcoming and active deconstruction projects. A new webpage at www.cityofpaloalto.org/deconstruction was also developed to provide information and resources for the community and stakeholders.

Environmental Review

This informational report does not require an environmental review.

Schedule of Meetings

Published January 13, 2022

This is a courtesy notice only. Meeting dates, times, and locations are subject to change. Almost all Palo Alto Council and some Standing Committee meetings are cablecast live on Channel 26. If there happens to be concurrent meetings, one meeting will be broadcast on Channel 29.

Until further notice, all meetings will be held virtually.

MONDAY, JANUARY 17

City Council Meeting, 6 p.m. (**CANCELLED DUE TO HOLIDAY**)

TUESDAY, JANUARY 18

Sp. Finance Committee Meeting, 6 p.m.

WEDNESDAY, JANUARY 19

Sp. Planning & Transportation Commission Meeting, 6 p.m.

Sp. Human Relations Commission Meeting, 6 p.m.

THURSDAY, JANUARY 20

Architectural Review Board Meeting, 8:30 a.m.

Public Art Commission Meeting, 7 p.m.

MONDAY, JANUARY 24

Sp. City Council Meeting, 5 p.m.

TUESDAY, JANUARY 25

Parks & Recreation Commission Meeting, 7 p.m.

WEDNESDAY, JANUARY 26

Planning & Transportation Commission Meeting, 6 p.m.

THURSDAY, JANUARY 27

Historic Resources Board Meeting, 8:30 AM

MONDAY, JANUARY 31

Sp. City Council Meeting, 5 p.m.

TUESDAY, FEBRUARY 1

Finance Committee Meeting, 7 p.m.

WEDNESDAY, FEBRUARY 2

Sp. Utilities Advisory Commission Meeting, 5 p.m.

THURSDAY, FEBRUARY 3

Architectural Review Board Meeting, 8:30 a.m.

MONDAY, FEBRUARY 7

Sp. City Council Meeting, 5 p.m.

TUESDAY, FEBRUARY 8

Policy & Services Committee Meeting, 7 p.m.

WEDNESDAY, FEBRUARY 9

Planning & Transportation Commission Meeting, 6 p.m.



City of Palo Alto City Council Staff Report

(ID # 13963)

Meeting Date: 1/24/2022

Title: Discuss Polling Results, Analysis, and Community and Stakeholder Engagement Plan; Recommend Further Refined Parameters for Possible Ballot Measures for November 2022 Election (Business License Tax and Utility Tax Proposal); and Direct Staff on Related Items such as Community and Stakeholder Engagement Plan

From: City Manager

Lead Department: Administrative Services

RECOMMENDATION

The Finance Committee recommends that the City Council:

- A. Direct Staff to pursue preparation of a square footage business license tax with the following characteristics:
 - a. Continue to review the rates, adding option 3 (flat fee of \$50 for first 5,000 square footage occupied and apply a monthly tax rate per square foot beyond the 5,000 threshold) as a starting point;
 - b. Exemptions for businesses subject to the Transient Occupancy Tax and grocery stores;
 - c. Annual escalator uses CPI as a basis;
- B. Accept the result of the Initial Poll and draft Community and Stakeholder Engagement Plan;
- C. Direct Staff to develop a proposal for voter ratification of the existing gas General Fund Equity Transfer and eliminate the UUT option, with exploration of whether to cap growth of the transfer to be explored via polling; and
- D. Consider a third poll in the ballot measure workplan

EXECUTIVE SUMMARY

In November 2021, the City Council directed staff to perform analysis to further refine a potential square footage business license tax and a potential utility tax and to launch initial polling. This report is an update on the evaluation of potential tax proposals for the November 2022 election. The following items are discussed in this staff report and action by Council is detailed in the Recommendation section of this report:

1. Business License Tax: refined analysis was presented to the Finance Committee on January 18, 2022 ([Agenda Item #1, p. 3, CMR 13875](#)). The Finance Committee reviewed the analysis and recommended further exploration of a square footage business license tax rate, using staff's proposed Option 3 as a starting point (summarized later in this report).
2. Utility Tax: staff is requesting Council action on the Finance Committee recommendations from its December 7, 2021 meeting ([Agenda Item #2, p. 55, CMR 13728](#)), where the Committee discussed refinement of the utility tax proposal and recommended that Council eliminate the UUT option from consideration. This recommendation was reaffirmed in the Finance Committee's January 18, 2022 motion.
3. Review and acceptance of the results from the Palo Alto Community Issues survey presented to the Finance Committee on January 18, 2022 ([Agenda Item #1, p. 31, CMR 13875](#)), which includes polling related to potential business license and utility tax proposals, and
4. Review, acceptance and direction to staff to implement the 2022 Community and Stakeholder Engagement Plan, presented to the Finance Committee on January 18, 2022 ([Agenda Item #1, p. 13, CMR 13875](#)).

For reference, **Attachment A** of this staff report includes a summary of work done to date on the potential revenue generating ballot measure(s).

BACKGROUND

The Finance Committee serves as the public body to review periodic progress reports and allow for structured public discussion for feedback and recommendations of the potential revenue generating ballot measure. Following the two meetings with the Finance Committee in September and October 2021, discussion on November 8, 2021 with the City Council ([CMR 13687](#)) considered the Finance Committee's recommendation to further explore a business license tax and a utility tax. In addition to direction regarding tax structure and modeling, the City Council also delegated the review of polls to the Finance Committee, provided that the overall ballot measure workplan stays on its timeline. The following is Council's direction to staff and the Finance Committee on November 8th:

- A. *Direct staff to model a business license tax at monthly rates of \$0.05 to \$0.20 per square foot, with a preference for no sunset and an annual escalator, and with thresholds for square footage size and possible exemptions for:*
 - i. *Small retail, measured by square footage;*
 - ii. *Grocery stores;*
 - iii. *No exemptions;*
- B. *Direct staff to model two methods to replace the General Fund Equity Transfer (GFET) at risk in the Green case:*
 - i. *Seek voter approval in modifying the 2009 GFET formula to transfer a percentage of gas utility gross revenues;*

- ii. *Distribute the change across gas and electric as an increase in the percentage of Utility Users Tax (UUT); and*
- C. *Direct staff to execute initial round of polling (**Attachment A**), delegate review of the polls to the Finance Committee, pending availability to stay on the workplan timeline, and incorporate the Council’s feedback of the poll, including the modeling assumptions identified in Parts A and Parts B of the motion; and*
- D. *Remove the parcel tax as an option from the polling questions.*

MOTION PASSED 6-1 (Tanaka no)

DISCUSSION & ANALYSIS

Staff presented updated analysis and other information for a potential utility on-bill tax at the Finance Committee’s December 7, 2021 meeting ([Agenda Item #2, begins on p. 55, CMR 13728](#)). For continuity of work by the 2021 Finance Committee, the 2021 Committee met on January 18, 2022 to review the third round of analysis of a potential business license tax ballot measure ([Agenda Item #1, p. 3, CMR 13875](#)), along with a report of Initial Polling Results ([Agenda Item #1, p. 31, CMR 13875](#)) and staff’s draft Community Engagement and Outreach Plan.

Square Footage Business License Tax

In the January 18th report to the Finance Committee, staff modeled a baseline scenario for a square footage business license tax and three options for the Finance Committee consideration:

Baseline Scenario: No Exemptions <ul style="list-style-type: none">Excludes properties likely to be exempt per CA law (banks, healthcare, religious, education property types)Est. revenues: \$15M to \$59M	Option 1: Exemption for Retail (less than or equal to 5,000 sf) and all grocery stores <ul style="list-style-type: none">Est. revenues: \$14M to \$57M
Option 2: Tiered Rates <ul style="list-style-type: none">Flat fee for businesses less than or equal to 5,000 sf (\$50/year)For all others, assume monthly rate per square footEst. revenues: \$14M to \$56M	Option 3: Tiered Rates After Square Footage Threshold <ul style="list-style-type: none">Flat fee for first 5,000 sf (\$50/year) and apply monthly rate/sf beyond thresholdEst. revenues \$12M to \$47M

The Finance Committee tentatively recommends that the Council direct staff to continue review of rates, using Option 3 as a starting point. This option would assess an annual flat fee of \$50 for the first 5,000 square feet occupied by a business (regardless of business type) and apply a monthly rate for square footage occupied beyond 5,000 square feet. The Committee recommends exemptions for businesses subject to the City’s Transiency Occupancy Tax and grocery stores. The Committee identified preference for this model to address potential tax

rate ‘cliffs’ between establishments that are 4,999 square feet versus 5,001 square feet smoothing the financial impact. In addition, the committee discussed at length the threshold for a flat rate, the nexus between a potential tax for voter consideration as well as the nexus with the existing Business Registry Certificate program. There was general acknowledgement by staff and the committee that there is a desire to smooth the process between these two potential structures to avoid duplication and confusion should a tax measure be approved by the voters.

Utility On-Bill Tax

Information for the Utility On-Bill Tax can be found in the staff report released on January 13, 2021 for this item ([CMR 13770, p. 384](#)). Staff provided additional analysis of a utility on-bill tax to the Finance Committee on December 7, 2021 in response to the direction by Council at its November 8, 2021 meeting. This information was presented to inform Finance Committee recommendations to Council regarding the form of the utility on-bill tax proposals and is detailed in [CMR 13728](#). Based on initial poll results presented to the Finance Committee, the Committee recommends that the City Council direct staff to develop a proposal that ratifies the existing gas General Fund Equity Transfer by establishing a transfer based on a percentage of utility revenues and remove the proposal to increase the utility users tax from potential ballot measure consideration. Through the engagement and polling process, staff will gather feedback about whether to cap the transfer at CPI to align it with current practice rather than having it increase with utility rates, which are expected to increase at a rate greater than inflation over the next few years.

Palo Alto Community Engagement, Outreach & Initial Polling Results

Public opinion research, ballot measure strategic planning, and community and stakeholder engagement are integral components of the Ballot Measure Workplan, which is designed with a goal of establishing an iterative approach with multiple touchpoints throughout the development and refinements of a potential ballot measure. The Finance Committee and Council provided feedback on a summary outline of the Palo Alto Community Issues survey at their October 19, 2021 and November 8, 2021 meetings, respectively.

The summary of initial polling results can be found in the January 18, 2022 Finance Committee staff report under [Agenda Item #1, p. 31, CMR 13875](#). This staff report also summarizes the 2022 City of Palo Alto Community and Stakeholder Engagement Plan that will be launched in February 2022.

Consideration for an Additional Poll (Three Polls in Total)

The Finance Committee discussed the possibility of incorporating an additional poll (for a total of three rather than two polls) into the ballot measure workplan to inform undecided characteristics of a square footage business license tax and the development of ballot language. The City’s consultant recommends that if the City chooses to add a poll, the remaining two polls be briefer than the initial poll and also likely smaller sample sizes. The next round of polling would test characteristics of a potential business license tax (rate, exemptions etc.) and

clarifying questions from the initial round of polling such as the impact of two potential measures on one ballot. The third and final poll would continue to test the formal ballot language.

Accommodating this additional poll would impact the timing, frequency, and volume of community and stakeholder outreach and the governance structure for Committee and Council review and direction. The outreach component of the workplan would be extended with final results not available until FY 2022 Q4 versus FY 2022 Q3. Outreach would need to be modified to conduct fewer sessions within the current plan schedule to accommodate the additional step from a workload capacity perspective with some follow-up outreach between the two remaining polls as well. Previous City Council direction was to delegate review of polls to the Finance Committee as time allows on the workplan. Polling, when time permits, would be reviewed directly with the City Council, omitting the Finance Committee review step, and at times potentially delegating to the City’s consultant FM3 the full process of drafting, review and execution of the poll. It is likely that at least one of the two remaining polls outline would be delegated to the City’s polling consultant for full development, review, and execution. There will also be a cost for the addition of the poll, and additional outreach and print/mailed media. Staff expects these hard costs to not exceed \$50,000, however need time to refine these figures.

Staff recommends if the Council wishes for a workplan with three polls, that the Council both provide that direction as part of this item, identify as part of this item, priorities for questions to be tested as part of the next round of polling, and direct staff to work with the consultant to draft and execute the next round.

Conclusion & Next Steps

Further narrowing the focus of the potential revenue generating ballot measure is critical so that staff can continue advancing the Ballot Measure Workplan that was approved by Council in August. This staff report provides the Finance Committee’s recommendations to the City Council regarding polling results, a stakeholder engagement plan, and refined analysis for the potential business license tax and utility on-bill tax. Additional exemptions and/or threshold considerations can be further refined as the ballot measure workplan proceeds and be tested through the second round of opinion research and outreach and engagement efforts.

TIMELINE

The below table recaps the Ballot Measure Workplan, as approved by the City Council in August, with minor adjustments, based on the process and discussion so far. The workplan does not assume an additional poll, as discussed by the Finance Committee.

Ballot Measure Workplan Timeline	
November 2021 COMPLETED	<i>Council:</i> <ul style="list-style-type: none"> - Confirm potential revenue-generating proposals, including refined modeling and analysis - Direction to complete initial polling and initial stakeholder outreach
December 2021 COMPLETED	<i>Finance Committee:</i> <ul style="list-style-type: none"> - Consideration of additional refinements and updates for potential revenue generating tax measure(s)
January 2022 ★ TONIGHT	<i>Recommended Special Finance Committee:</i> <ul style="list-style-type: none"> - Consideration of additional refinements and updates for potential revenue generating tax measure(s), business license tax <i>City Council:</i> Review the results of the first round of polling and the Finance Committee's recommendation from staff analysis related to the utility tax and seek direction to refine the utility tax proposal and to proceed with stakeholder outreach.
February 2022	Community and Stakeholder Engagement Plan Launched <ul style="list-style-type: none"> - Community discussions and Focus Groups through March
April 2022	<i>Finance and Council:</i> <ul style="list-style-type: none"> - Results of Community and Stakeholder Engagement reported to Council - Formalized discussion of funding resource allocation - Outline of second round of polling to be reviewed - Preliminary review of draft ballot language (April/May)
May 2022	Second Round of Polling launched (early May)
June 2022	<i>Council:</i> <ul style="list-style-type: none"> - Results of second round polling reported - Final Approval of November 2022 Ballot Measures, including ballot measure language
August 2022	Language submitted to Santa Clara County Registrar of Voters
November 2022	Election

FISCAL/RESOURCE IMPACT

Implementation of this workplan to develop a revenue generating local ballot measure will require significant resources that include internal staff, consultant expertise, as well as stakeholder engagement. Resource needs will scale proportionately based on the ballot measure option and the complexity of the measure that the Finance Committee and City Council direct staff to pursue. It is important that the scope of the potential ballot measure(s)

be clearly defined and effectively narrowed for staff to successfully progress through the workplan.

This initiative has required an equivalent of approximately two full time dedicated staff positions, however, as work continues to progress it is expected to take a significant increase in staffing resources including additional focused executive support from the Executive Leadership Team. This will have an impact on other projects. In addition, support is required from outside consultants and engagement with internal stakeholders in key departments. The City Council appropriated funding for this activity as part of the FY 2022 Preliminary 1st Quarter. Additional contracts and/or proposed budget amendments will be brought forward for approval as appropriate.

The Santa Clara County Registrar of Voters estimates that placing two measures on the November 2022 election ballot will cost approximately \$160,000, or \$80,000 each. Appropriation for these funds will be brought forward in the FY 2023 Proposed Budget.

The Finance Committee discussed the possibility of an additional round of polling in the ballot measure workplan. An additional round of polling requires an amendment to the professional services agreement with Fairbank, Maslin, Maullin, Metz & Associates (FM3) and would require approval by the City Council, based on contract authority set forth in the Palo Alto Municipal Code. In addition to this, additional outreach for print and mailing would be needed as well.

STAKEHOLDER ENGAGEMENT

The Ballot Measure Workplan integrates stakeholder engagement through constituent polling and stakeholder outreach. Staff, throughout the process and from previous conversations, has solicited input and feedback with the Finance Committee, the City Council, residents, and the business community. Staff received direction to proceed with initial polling at the November 8, 2021 Council meeting and reviewed results with the Finance Committee on January 18 2021 ([CMR 13875](#)). Based on the Ballot Measure Workplan, staff seeks the City Council's direction to move forward with the Community and Stakeholder Outreach Plan to begin in February 2022. The City has engaged with FM3 to perform polling, Lew Edwards Group for stakeholder engagement planning, and the Public Dialogue Consortium (PDC) for stakeholder engagement.

ENVIRONMENTAL REVIEW

This activity is not a project under California Environmental Quality Act (CEQA) as defined in CEQA Guidelines, section 15378, because it has no potential for resulting in either a direct or reasonably foreseeable indirect physical change in the environment.

Attachments:

- **AttachmentA:** Attachment A: Summary of Prior Work on Potential Revenue Generating Ballot Measures

Summary of Prior Work on Potential Revenue Generating Ballot Measures

The City of Palo Alto has been discussing its options for potential revenue-generating ballot measures through 2019 and 2020. This work was suspended at City Council direction in March 2020 in order to marshal available resources to manage through the COVID-19 pandemic. A brief timeline of the CMRs and discussions with the Finance Committee and the City Council since April of 2019, when staff was formally directed to begin working on this project by the City Council, is included below for additional context. The date, the forum of the meeting (Finance Committee or City Council), the summary title, and the CMR number are included for ease of reference.

Timeline

4/22/2019 City Council, “2019 Fiscal Sustainability Workplan”, [CMR 10267](#)

4/22/2019 City Council, “Approve Workplan for a Potential Revenue Generated Ballot Measure”, [CMR 10261](#)

6/18/2019 Finance Committee, “Review, Comment, and Accept Preliminary Revenue Estimates for Consideration of a Ballot Measure”, [CMR 10392](#)

8/20/2019 Finance Committee, “Evaluation and Discussion of Potential Revenue Generating Ballot Measures”, [CMR 10445](#)

9/16/2019 City Council, “Evaluation and Discussion of Potential Revenue Generating Ballot Measures and Budget Amendment”, [CMR 10615](#)

10/1/2019 Finance Committee, “Revised Workplan for Consideration of a Ballot Measure”, [CMR 10712](#)

10/15/2019 Finance Committee, “Stakeholder Outreach, Initial Polling, and Discussion of a Potential Ballot Measure”, [CMR 10743](#)

11/4/2019 City Council, “Potential Ballot Measure Polling/Outreach, Contract, Solicitation Exemption and Budget Amendment”, [CMR 10792](#)

12/2/2019 City Council, “Structure and Scenarios of Initial Round of Polling for a Potential Local Tax Measure”, [CMR 10891](#)

12/17/2019 Finance Committee, “Consideration, Evaluation, and Discussion of a Revenue Generating Local Tax Ballot Measure, Review of Refined Modeling, Analysis, Tax Structure and Recommendation to the City Council”, [CMR 10655](#)

1/27/2020 City Council, "Update, Consideration, and Potential Direction on Possible Local Tax Measure for 2020 Election", [CMR 11019](#)

3/23/20 City Council, "Consideration of Analysis, Public Outreach, and Refined Polling and Further Direction on a Potential Local Business Tax Ballot Measure for 2020 Election", [CMR 11161](#)

3/23/20 City Council, "Consideration of Analysis, Public Outreach, and Refined Polling and Further Direction on a Potential Local Business Tax Ballot Measure for 2020 Election", [At-Places Memorandum](#)

6/15/2021, Finance Committee Staff Report, "Recommend the City Council Approve the Workplan for Pursuit of a Revenue-Generating Local Ballot Measure for the November 2022 General Election; Review and Potential Guidance to Staff on Affordable Housing Funding as Referred by the Council", [CMR 12299](#)

8/16/2021 City Council, "Approve the Workplan for Development of a Revenue-Generating Local Ballot Measure for the November 2022 General Election; Review and Potential Guidance to Staff on Affordable Housing Funds as Referred by the City Council", [CMR 12381](#)

9/21/2021 Finance Committee, "Discuss Updates and a Recommended Further Refinement of Potential Revenue Generating Local Ballot Measures," [CMR 13514](#)

10/19/2021 Finance Committee, "Discuss Updates and Recommend Further Refinement of Potential Revenue Generating Local Ballot Measures, and Review Draft Initial Polling Outline", [CMR 13648](#)

11/8/2021 City Council, "Discuss Updates and Recommend Further Refinement of Potential Revenue Generating Local Ballot Measures, and Review Draft Initial Polling Outline", [CMR 13687](#)

12/7/2021 Finance Committee, "Discuss Updates and Recommend Further Refinement of Potential Revenue Generating Local Ballot Measures", [CMR 13728](#)

1/18/2022 Finance Committee, "Discuss Poll Results Regarding Potential 2022 Revenue Generating Ballot Measures and Recommend Further Refinement of Business License Tax and Utility Tax Proposals", [CMR 13875](#)

1/24/2022 City Council, "Discuss Polling Results, Analysis, and Community Stakeholder Engagement Plan; Recommend Further Refined Parameters for a Possible Local Tax Ballot Measure for November 2022 Election (Business License Tax and Utility Tax Proposals); and Direct Staff on Related Items such as Community and Stakeholder Engagement Plan," [CMR 13770](#)