City of Palo Alto

City Council Staff Report

(ID # 11880)

Report Type: Action Items **Meeting Date: 1/11/2021**

Summary Title: Approval of FY2020 Financial Statements, FY2020 Annual Financials Report, & FY2020 Budget Amendments

Title: Approval of the Macias Gini & O'Connell's Audit of the City of Palo Alto's Financial Statements as of June 30, 2020 and the Management Letter; FY 2020 Comprehensive Annual Financial Report (CAFR); & FY 2020 Budget Amendments in Various Funds

From: City Manager

Lead Department: Administrative Services

RECOMMENDATION

Finance Committee and Staff recommend that the City Council approve:

1. The City of Palo Alto's audited financial statements for the fiscal year ended June 30, 2020, and the accompanying reports provided by Macias Gini & O'Connell ("MGO") LLP (Office of the City Auditor Report) Attachment I**.** Reports include:
    a. Report to the City Council (the "Management Letter")
    b. Cable TV Franchise, Independent Auditor's Report and Statements of Franchise Revenues and Expenses for the years ended December 31, 2019 and 2018
    c. Palo Alto Public Improvement Corporation (a component unit of the City of Palo Alto) Annual Financial Report for the year ended June 30, 2020
    d. Regional Water Quality Control Plant, Independent Auditor's Report and Financial Statements for the year ended June 30, 2020
    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, 2020
2. The Fiscal Year (FY) 2020 Comprehensive Annual Financial Report (CAFR), included in CMR #11741 with corrected section Attachment II and III respectively.
   An electronic copy is available at:
   https://www.cityofpaloalto.org/gov/depts/asd/reporting.asp.
3. Amendments to the Fiscal Year 2020 Budget Appropriation Ordinance for various funds as identified in CMR #11741 *Recommended Amendments to the City Manager's FY 2020*

Budget (Attachment II) as Attachment B – Exhibit 1 and various capital projects as identified in Attachment B – Exhibit 2.

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

SUMMARY

At the December 1, 2020 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 for the Committee to review, approve, and forward to the City Council for approval. The action minutes from the Committee meeting are attached for reference (Attachment C). The reports and approval information are as follows:

- The Finance Committee voted unanimously to accept the Office of the City Auditor: Discussion and Recommendation to the City Council to Accept the Macias Gini & O'Connell's Audit of the City of Palo Alto's Financial Statements as of June 30, 2020 and Management Letter. https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=60077.38&BlobID=79271
- The Finance Committee also voted unanimously to approve the Fiscal Year (FY) 2020 Comprehensive Annual Financial Report (CAFR) – Attachment A. The Committee approved 2-1 vote to approve FY 2020 Budget Amendments in Various Funds – Attachment B. (Chair Tanaka dissenting) https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=58957.62&BlobID=79261

These reports transmitted the City's FY 2020 financials through the Comprehensive Annual Financial Report (CAFR) for the year ending June 30, 2020. As is customary, the City Council is required to close out the City's financial results at the end of each fiscal year. As per the City Council's practice, an item without unanimous approval by a Committee shall be placed as an action item for the City Council's consideration.

Overall, the City ended the year a net positive position despite of the financial impacts of COVID-19 and no current year findings were reported.

As outlined in the staff report to the Committee, the General Fund Budget Stabilization Reserve (BSR) is $35.9 million which is 18.2 percent of the FY 2021 Adopted General Fund budgeted expenses and $0.5 million below the City Council target level of $36.4 million, or 18.5 percent of General Fund expenses. As such, there are no recommended allocations or adjustments of "excess" BSR funds.

At the Finance Committee discussion surrounding the recommended adjustments to capital project funding levels were reviewed; most specifically a recommended adjustment to realign the timing of expenses incurred for New Public Safety Building (PE-15001). Overall, the total

project budget remains at $118.0 million over the life of the project, as adopted in the FY 2021 Capital Budget. Project costs incurred in FY 2020 were higher than anticipated for items such as tieback easements, geotechnical services, third party storm drain design review, telecommunications design, interdepartmental building permit fees, and staff project management. The recommended action realigns the timing of the expenditures by reducing the project budget in FY 2021 by $0.8 million (action approved by Council in CMR 11526) and appropriates the $0.8 million in FY 2020 when the costs were incurred.

Fire Station 3 Replacement (PE-15003) – The encumbrance remaining on the construction contract represents the full amount of the contract; however, the delays on the project led to increased costs for construction administration and management. Staff is pursuing assessment of liquidated damages from the construction contractor, which would bring the overall project budget back to the $10.1 million budget as adopted in the FY 2021 Capital Budget. The project closeout, including assessment of liquidated damages, is in process.

Electric Customer Connections (EL-89028) and Water System Customer Connections (WS-80013) – The number of connection requests implemented in these reoccurring capital projects were higher than estimated causing the expenses in these projects to increase. Reimbursement revenue from customers offset these increases; however, due to the timing of the reimbursements not occurring in the same fiscal year, budget adjustments are recommended in FY 2020 to offset the increased expenses.

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 11741 (Attachment II), Attachment B, both Exhibits 1 and 2, recommend adjustments to the FY 2020 appropriated level of funds to align budgeted levels with year-end activities. Overall, these transactions ensure all funds remain in a positive financial picture.

Environmental Review

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

Attachments:

- Attachment I: Office of the City Auditor Finance Committee Report, Transmittal of MGO's Audit of the City of Palo Alto's Financial Statements
- Attachment II: Staff Report #11741, Approval of FY2020 CAFR & Budget Amendments
- Attachment III: At Place Memorandum, Clerical Corrections to CMR #11741
- Attachment A - FY2020 CAFR
- Attachment IV: Action Minutes, Finance Committee 12/1/2020
- Attachment B- Recommended FY20 Year-end Clean-up Actions

ATTACHMENT I

CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

December 1, 2020

The Honorable City Council
Palo Alto, California

Discussion and Recommendation to the City Council Accept the Macias Gini & O'Connell's Audit of the City of Palo Alto's Financial Statements as of June 30, 2020 and the Management Letter

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, 2020 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, 2020.

The Administrative Services Department provides the Comprehensive Annual Financial Report (CAFR), including the following Independent Auditor's report, to the finance committee:

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

Note that as of October 30, 2020, guidance necessary for the completion of the Single Audit had not yet been released by the Office of Management and Budget (OMB). The Single Audit will be completed within the statutory deadline of March 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") – Schedule A
- Cable TV Franchise, Independent Auditor's Report and Statements of Franchise Revenues and Expenses for the Years Ended December 31, 2018 and 2019 – Schedule B
- Palo Alto Public Improvement Corporation Annual Financial Report for the Year Ended June 30, 2020 – Schedule C
- Regional Water Quality Control Plant Independent Auditor's Report and Financial Statements for the Year Ended June 30, 2020 – Schedule D
- Independent Accountant's Report on Applying Agreed-Upon Procedures Related to the Article XIII-B Appropriations Limit for the Year Ended June 30, 2020 – Schedule E

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, Kiely Nose, and her staff in the Administrative Services Department for their hard work and cooperation during the audit.

Respectfully submitted,
Kyle O'Rourke
City Auditor and Senior Manager, Baker Tilly

bakertilly
now, for tomorrow.

ATTACHMENTS:

- Schedule A - Auditor's Report to the City Council (PDF)
- Schedule B - Cable TV Franchise Audit Report (PDF)
- Schedule C - Palo Alto Public Improvement Corporation Annual Financial Report (PDF)
- Schedule D - Regional Water Quality Control Plant Audit Report (PDF)
- Schedule E - Agreed Upon Procedures Related to the Article Xlll-B Appropriations Limit (PDF)

Department Head: Kyle ORourke,

CITY OF PALO ALTO, CALIFORNIA

Report to the City Council

For the Year Ended June 30, 2020



CITY OF PALO ALTO, CALIFORNIA
Report to the City Council
For the Year Ended June 30, 2020

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Certified Public Accountants

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, 2020, 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, 2020, 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
October 30, 2020

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CITY OF PALO ALTO, CALIFORNIA
Report to the City Council
For the Year Ended June 30, 2020

REQUIRED COMMUNICATIONS

We have audited the basic financial statements of the City as of and for the year ended June 30, 2020, and have issued our report thereon dated October 30, 2020. 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 1, 2020, 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. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance.* Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2020.

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.
- *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, Commitments and Contingencies in Note 16, and Uncertainties in Note 17.

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.

Representations Requested from Management

We have requested certain written representations from management, which are included in the letter dated October 30, 2020.

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 Matters

We applied certain limited procedures to the management's discussion and analysis, the schedules of changes in net pension liability and related ratios, the schedules of pension contributions, the schedule of changes in net OPEB liability and related ratios, 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.

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.

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.

SUMMARY OF UNCORRECTED FINANCIAL STATEMENTS MISSTATEMENTS

	Debit	***Credit***
Current Year Adjustment #1		
Beginning Net Position	$ 12,611,640	
Expenses - Public Works		$ 12,611,640

(Government-wide Governmental Activities - To adjust expenses for capital assets improperly capitalized in prior years and written off during the year ended June 30, 2020. The net position and capital assets balances were corrected as of June 30, 2020.)

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CABLE TV FRANCHISE

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

For the Years Ended December 31, 2019 and 2018



CABLE TV FRANCHISE
Independent Auditor's Report and Statements of Franchise Revenues and Expenses
For the Years Ended December 31, 2019 and 2018

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Certified Public Accountants

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of a Matter

As discussed in Note 3 to the financial statements, in March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. The City of Palo Alto and the Franchise expect this outbreak to adversely impact the Franchise's revenues and operations for future reporting periods. The City of Palo Alto and the Franchise are not able to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Franchise or results of operations. 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.



Walnut Creek, California
October 30, 2020

CABLE TV FRANCHISE

Statements of Franchise Revenues and Expenses

For the Years Ended December 31, 2019 and 2018

	2019	2018
Revenues:		
Franchise fees	$ 1,679,591	$ 1,763,182
Expenses:		
Franchise administration	69,790	47,144
Consulting fees	12,650	6,278
Total expenses	82,440	53,422
Net revenues	$ 1,597,151	$ 1,709,760

	2019		2018	
	Amount	Percent	Amount	Percent
Allocated Net Revenues:				
City of Palo Alto	$ 762,686	47.8%	$ 824,236	48.2%
City of Menlo Park	428,867	26.8%	455,822	26.7%
City of East Palo Alto	165,082	10.3%	172,521	10.1%
Town of Atherton	131,766	8.3%	137,686	8.1%
County of Santa Clara	86,425	5.4%	90,855	5.3%
County of San Mateo	22,325	1.4%	28,640	1.7%
Total allocated net revenues	$ 1,597,151	100.0%	$ 1,709,760	100.0%

See accompanying notes to the financial statements.

CABLE TV FRANCHISE
Notes to the Financial Statements
For the Years Ended December 31, 2019 and 2018

NOTE 1 – JOINT OPERATING AGREEMENT AND BASIS OF ACCOUNTING

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

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

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

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

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

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

The accompanying financial statements are 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, taking into account a reasonable adjustment for bad debts. From these fees the City is first reimbursed for out-of-pocket franchise administration costs. The remaining fees are distributed to each Member according to the percentage of revenues derived from the residents and businesses in each of the entities compared to revenues in total.

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, 2019 and 2018, the remaining balances on deposit with the City were $760,344 and $684,471, respectively. These balances include interest receivable of $4,316 and $2,940 at December 31, 2019 and 2018, respectively.

NOTE 3 – SUBSEQUENT EVENT

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected organizations and its workforces, as well as the economy and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many governmental organizations, including the City and the Cable TV Franchise (Franchise). The City and the Franchise expects this outbreak to adversely impact revenues and operations for future reporting periods. It is not possible for the City and the Franchise to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Franchise or results of operations.

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

Annual Financial Report

For the Year Ended June 30, 2020



PALO ALTO PUBLIC IMPROVEMENT CORPORATION
(A Component Unit of the City of Palo Alto)
Annual Financial Report
For the Year Ended June 30, 2020

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Certified Public Accountants

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, 2020, 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, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Macias Gini & O'Connell LLP

Walnut Creek, California
October 30, 2020

PALO ALTO PUBLIC IMPROVEMENT CORPORATION
(A Component Unit of the City of Palo Alto)
Management's Discussion & Analysis (Unaudited)
For the Year Ended June 30, 2020

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 two outstanding debts and has turned over the proceeds to the City, which pledged certain lease payments as collateral for this debt as discussed in Note 4 to the financial statements.

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 2002, the Corporation issued its 2002B Downtown Parking Improvements Certificates of Participation (2002B COPs) in the amount of $3.6 million. In fiscal year 2018, the City issued 2018 Capital Improvement Project and Refinancing Certificates of Participation (2018 COPs) in the amount of $9.0 million to refinance the 2002B COPs remaining balance of $805 thousand, and also to fund the Palo Alto Municipal Golf Course renovations.

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

As of June 30, 2020, the 2018 COPs and 2019A and 2019B COPs comprise the Corporation's outstanding debt.

At the government-wide level, the interest and fiscal agent charges were $1.9 million for fiscal year 2020, an increase of $0.9 million from the prior year. The interest on leases from the City of Palo Alto was $1.9 million, an increase of $0.9 million from the prior year. The increases of interest and fiscal charges and interest on leases are due to the full year of interest incurred for the 2019A and 2019B COPs issued during mid-year of fiscal year 2019.

The Corporation ended fiscal year 2020 with total assets of $50.8 million, a decrease of $0.9 million from the prior year. Total assets consisted of $38 thousand in cash and investments, $351 thousand of lease interest receivable from the City of Palo Alto, and $50.4 million of investment in leases to the City of Palo Alto. The total liabilities were $50.8 million, a decrease of $0.9 million from the prior year. The decreases of assets and liabilities resulted from the scheduled repayment of the 2008 COPs and 2019A and 2019 B COPs.

At the fund level, the Corporation's revenues exceeded the expenditures by $4 thousand. As of June 30, 2020, the Corporation had one fund, the Debt Service Fund, which reported a $38 thousand restricted fund balance.

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, 2020, the Corporation has the following outstanding debt: 2018 COPs and 2019A and 2019B COPs, with outstanding principal balances of $8.8 million and $37.0 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, 2020

Assets	
Cash held for operations	$ 4,000
Cash and investments held by trustee	34,078
Lease interest receivable	350,754
Investment in leases to the City of Palo Alto	50,435,892
Total assets	50,824,724
Liabilities	
Interest payable	350,754
Long-term debt:	
Due in one year	1,007,571
Due in more than one year	49,428,321
Total liabilities	50,786,646
Net Position	
Restricted for debt service	$ 38,078

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, 2020

Expenses		
Interest and fiscal agent charges	$	1,944,741
Program revenues		
Interest on leases from the City of Palo Alto		1,947,048
Net program revenues		2,307
General revenues		
Investment earnings		1,428
Change in net position		3,735
Net position, beginning of the year		34,343
Net position, end of the year	$	38,078

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, 2020

Assets		
Cash held for operations	$	4,000
Cash and investments held by trustee		34,078
Lease interest receivable		350,754
Investment in leases to City of Palo Alto		50,435,892
Total assets	$	50,824,724
Deferred Inflows of Resources		
Unavailable lease receipts from the City of Palo Alto	$	50,786,646
Fund balance		
Restricted for debt service		38,078
Total deferred inflows of resources and fund balance	$	50,824,724
Reconciliation of fund balance to net position		
Fund balance restricted for debt service	$	38,078
Long-term receivables are not available to pay for current period expenditures and are considered unavailable on the governmental fund balance sheet		50,786,646
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the Fund:		
Interest payable		(350,754)
Long-term debt due within one year		(1,007,571)
Long-term debt due in more than one year		(49,428,321)
Net position of governmental activities	$	38,078

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, 2020

Revenues:		
Lease receipts from the City of Palo Alto:		
Principal	$	555,000
Interest		2,307,898
Others		2,307
Investments earnings		1,428
Total revenues		2,866,633
Expenditures:		
Debt service:		
Principal repayment		555,000
Interest and fiscal agent charges		2,307,898
Total expenditures		2,862,898
Net change in fund balance		3,735
Fund balance, beginning of the year		34,343
Fund balance, end of the year	$	38,078
Reconciliation of net change in fund balance to change in net position		
Net change in fund balance - debt service fund	$	3,735
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 liabilites.		555,000
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		170,586
Amortization of bond premium		192,571
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		(555,000)
Lease receipt for interest payment		(170,586)
Impact of bond premium amortization on lease receipt		(192,571)
Change in net position of governmental activities	$	3,735

See accompanying notes to financial statements.

NOTE 1 – DESCRIPTION OF REPORTING ENTITY

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

The Corporation is an integral part of the City of Palo Alto (City). It primarily services the City and its governing body is composed of the City Council. Therefore, the financial data of the Corporation has also been included as a blended component unit within the City's comprehensive annual financial report for the year ended June 30, 2020.

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.

(c) Investment in Leases

Improvements financed by the Corporation are leased to the City for their entire estimated useful life and will become the City property at the conclusion of the lease on November 1, 2048. The Corporation therefore records the present value of the lease and considers the leased improvement to have been sold for this amount when leased.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Net Position

The government-wide financial statements utilize a net position presentation. Net position is further categorized as net investment in capital assets, restricted and/or unrestricted. As of June 30, 2020, the entire net position was considered restricted.

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

(e) Deferred Inflows of Resources

A deferred inflow of resources is defined as an acquisition of net position or fund balances applicable to a future reporting period and will not be recognized as an inflow of resources (revenue) until that time. On the governmental fund balance sheet, the lease receipts from the City corresponding to the debt are recorded as deferred inflows of resources since the balances are not current financial resources. The City considers revenues susceptible to accrual to be available if the revenues are collected within ninety days after year-end, except for property taxes, which are available if collected within sixty days after year-end.

(f) Fund Balances

At June 30, 2020, the Corporation's governmental fund's fund balances include the following classification:

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

(g) 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.

(h) 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	$ 34,078	45 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, 2020, 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.

(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 Comprehensive Annual Financial Report.

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

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	$50 million per account
Short-Term Repurchase Agreements	1 year	N/A	No Limit	No Limit
City of Palo Alto Bonds	N/A	N/A	No Limit	No Limit
Money Market 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

(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.

NOTE 4 – CERTIFICATES OF PARTICIPATION

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

	Balance June 30, 2019	Retirements	Balance June 30, 2020	Amount due in one year
Certificates of Participation				
2018 Capital Improvement Project 2.20-4.22%, due 11/1/2047	$ 8,935,000	$ 180,000	$ 8,755,000	$ 185,000
2019 California Ave. Parking Garage Series A & B 2.5%-5%, due 11/1/2048	37,370,000	375,000	36,995,000	630,000
Add: Unamortized Premium	4,878,463	192,571	4,685,892	192,571
Total	$ 51,183,463	$ 747,571	$ 50,435,892	$ 1,007,571

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

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

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

For the Year Ending June 30,	Principal	Interest Payment	Total Payment
2021	$ 815,000	$ 2,093,576	$ 2,908,576
2022	835,000	2,070,960	2,905,960
2023	860,000	2,043,531	2,903,531
2024	890,000	2,007,303	2,897,303
2025	925,000	1,965,358	2,890,358
2026-2030	5,340,000	9,114,927	14,454,927
2031-2035	6,735,000	7,681,819	14,416,819
2036-2040	8,515,000	5,856,277	14,371,277
2041-2045	10,785,000	3,533,896	14,318,896
2046-2049	10,050,000	861,385	10,911,385
	$ 45,750,000	$ 37,229,032	$ 82,979,032

NOTE 4 – CERTIFICATES OF PARTICIPATION (Continued)

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, 2020



CITY OF PALO ALTO
REGIONAL WATER QUALITY CONTROL PLANT
Independent Auditor's Report and Financial Statements
For the Year Ended June 30, 2020

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Certified Public Accountants

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, 2020, and the related notes to the financial statements, which collectively comprise the Plant's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the revenues, expenditures and quarterly billings of the Plant for the year ended June 30, 2020, in accordance with the financial reporting provisions of the Basic Agreement as described in Note 2 to the financial statements.

Basis of Accounting

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

Restriction on Use

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

Macias Gini & O'Connell LLP

Walnut Creek, California
October 30, 2020

CITY OF PALO ALTO
REGIONAL WATER QUALITY CONTROL PLANT
Statement of Net Expenditures
For the Year Ended June 30, 2020

	Total	City of Mountain View	City of Los Altos	City of Palo Alto
Direct Expenditures:				
Source control program	$ 1,468,227	$ 611,223	$ 159,156	$ 697,848
Public outreach	157,098	65,400	17,029	74,669
Permitting and enforcement	1,140,357	297,523	17,501	825,333
Operations and maintenance	16,249,033	6,764,472	1,761,396	7,723,165
System improvement CIP (Note 3)	2,655,244	1,105,378	287,828	1,262,038
Total Direct Expenditures	21,669,959	8,843,996	2,242,910	10,583,053
Indirect Administrative Expenditures (Note 4):				
Source control program	949,167	395,138	102,890	451,139
Public outreach	2,755	1,147	299	1,309
Permitting and enforcement	367,435	274,637	16,155	76,643
Operations and maintenance	3,545,143	1,475,842	384,294	1,685,007
Total Indirect Administrative Expenditures	4,864,500	2,146,764	503,638	2,214,098
Debt Service Expenditures (Note 5):				
Refunding 1990 Series A Bonds	282,106	143,874	22,004	116,228
1999 Wastewater Treatment New Project	540,051	204,625	51,143	284,283
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	2,469,746	972,772	229,173	1,267,801
Total Expenditures	29,004,205	11,963,532	2,975,721	14,064,952
Deduct Joint Systems Revenues (Note 6)	(329,056)	(136,986)	(35,670)	(156,400)
Net Expenditures	$ 28,675,149	$ 11,826,546	$ 2,940,051	$ 13,908,552

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, 2020

	City of Mountain View	City of Los Altos
Billings by Quarter, Beginning:		
July 1, 2019	$ 2,667,191	$ 691,333
October 1, 2019	2,916,579	752,102
January 1, 2020	2,667,191	691,333
April 1, 2020	3,390,526	859,679
Total billings	11,641,487	2,994,447
Net expenditures	11,826,546	2,940,051
Excess (deficit) of total billings over (under) net expenditures	$ (185,059)	$ 54,396

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, 2020

NOTE 1 – THE REPORTING ENTITY

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Plant is an enterprise that is operated by the City and its operations are accounted for as an enterprise fund in the City's basic financial statements. The 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The percentages used for the year ended June 30, 2020, 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	41.63%	10.84%	47.53%
Permitting and enforcement	37.95%	2.23%	59.82%
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 47.53% 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 2020 allocations are as follows:

East Palo Alto Sanitary District	6.34%
Stanford University	4.61%
Town of Los Altos Hills	2.01%
Remaining City percentages	34.57%
Total	47.53%

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 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 2020, the adjusted capital additions limit is $3,301,236. Actual System Improvement CIP expenditures amounted to $2,655,244 for fiscal year 2020. As of June 30, 2020, the commitments for minor capital additions, including unspent capital additions, is $5,243,105 which have been carried forward to fiscal year 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 State Water Resources Control Board (SWRCB) executed an agreement for the 2009 State Water Resources Loan to finance the Ultraviolet Disinfection Project.

In June 2017, the City and 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 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 oblige them to pay their proportionate share of the principal and interest of this loan. The City's share of the loan payment is 38.2% with the partner agencies paying 61.8%.

NOTE 5 – DEBT SERVICE EXPENDITURES (Continued)

The principal amount of the debt outstanding as of June 30, 2020 are allocated as follows:

	1999 Utility Revenue Refunding Bonds				
	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	$ 715,500	$ 246,636	$ 2,006,354	$ 9,349,411	$ 12,317,901
City of Mountain View	710,438	503,138	1,992,158	9,283,260	12,488,994
City of Los Altos	177,563	76,951	497,908	2,320,202	3,072,624
East Palo Alto Sanitary District	143,250	117,399	401,691	1,871,842	2,534,182
Stanford University	98,625	40,448	276,557	1,288,729	1,704,359
Town of Los Altos Hills	29,625	1,973	83,072	387,109	501,779
Total	$ 1,875,000	$ 986,545	$ 5,257,740	$ 24,500,553	$ 32,619,838

NOTE 6 – JOINT SYSTEM REVENUES

The Plant's joint system revenues for the year ended June 30, 2020 total $329,056 which consisted of the following:

Septic hauling services	$ 279,614
Other miscellaneous revenues	5,682
Salt water marsh services	7,500
Interdepartment services	7,313
Utility service to other utility funds	36,599
Bad debt expense	(7,652)
	$ 329,056

NOTE 7 – RELATED PARTY TRANSACTIONS

During fiscal year 2020, the Plant paid the City $1,984,858 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 $54,373 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.

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, 2020



Certified Public Accountants

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

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

We have performed the procedures enumerated below to the accompanying Appropriations Limit Worksheet of the City of Palo Alto, California (City), which were agreed to by the City and recommended by the California Committee on Municipal Accounting (CCMA) (as presented in the CCMA White Paper titled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitution*), on the City's calculation of the appropriations limit in accordance with Section 1.5 of Article XIII-B of the California Constitution for the year ended June 30, 2020. The City management is responsible for the Appropriation Limit Worksheet. The sufficiency of these procedures is solely the responsibility of the City. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

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

   Finding: No exceptions were 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.

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

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

Macias Gini & O'Connell LLP

Walnut Creek, California
October 30, 2020

CITY OF PALO ALTO, CALIFORNIA
Appropriations Limit Worksheet
For the Year Ended June 30, 2020

2018-2019 appropriation limit, as adopted	$	165,810,000
Adjustment factors:		
Population [1]		1.0033
Inflation [2]		1.0385
Total adjustment factors (rounded) [3]		1.0419
Total adjustments (rounded)		6,950,000
2019-2020 appropriation limit, as adopted	$	172,760,000

[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.

ATTACHMENT II

City of Palo Alto (ID # 11741)

Finance Committee Staff Report

Report Type: Action Items **Meeting Date: 12/1/2020**

Council Priority: Fiscal Sustainability

Summary Title: Approval of FY 2020 Comprehensive Annual Financial Report (CAFR) & Budget Amendments

Title: Recommendation to the City Council to Approve the Fiscal Year (FY) 2020 Comprehensive Annual Financial Report (CAFR) and FY 2020 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 2020 Comprehensive Annual Financial Report (CAFR) (Attachment C); and

2. Amend the Fiscal Year (FY) 2020 Budget Appropriation Ordinance for various funds as identified in the attached Recommended Amendments to the City Manager's FY2020 Budget (Operating Budget: **Attachment B – Exhibit 1**; Capital Budget: **Attachment B – Exhibit 2**).

Financial Highlights for FY 2020

Government-wide

At the close of FY 2020, the City's overall Net Position remains positive despite of the financial impacts of COVID-19. The Statement of Activities (p.29 of the attached CAFR) 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 $440.6 million, a $9.4 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 $785.0 million, a $43.5 million increase. Various factors contributed to these changes, including accounting adjustments required by the Governmental Accounting Standards Board (GASB). Financial highlights by fund category can be found in the Discussion section of this report.

General Fund

The General Fund ended with a $35.9 million Budget Stabilization Reserve (BSR), a $18.9 million, or 34.5 percent, decrease when compared to FY 2019. The BSR decreased mainly due to a $13.4 million shortfall of revenue to expense resulting from the COVID-19 shelter in place orders. The shelter in place orders impacted the City's revenue from sales tax, transient occupancy tax, and charges for services.

The General Fund ended FY 2020 with a $2.9 million surplus when compared to the assumptions used in the development of the FY 2021 Adopted Operating Budget and the rebalancing adjustments for FY 2020 approved by the City Council in June 2020 as a result of the financial impacts of COVID-19 (Staff Report #11328). The primary driver of the surplus was the overall expense savings realized across all the departments, and the largest variances were experienced in the Planning and Development Services department and Non-Departmental. As of June 30, 2020, the BSR is $35.9 million, which is 18.2 percent of the FY 2021 Adopted General Fund budgeted expenses and $0.5 million below the City Council target level of $36.4 million, or 18.5 percent of General Fund expenses.

Enterprise Funds

The City's Enterprise Funds, except for the Refuse fund, ended the year in surplus positions. The Refuse Fund ended with a net loss due to lower revenues resulting from the reduction of services of commercial and industrial customers due to COVID-19 shelter in place order and an increase in reimbursement to GreenWaste of Palo Alto for new waste collection vehicles.

Internal Service Funds

Internal Service Funds ended the fiscal year with $80.3 million fund balance. All funds showed positive balances except the Printing and Mailing which reported a $0.4 million negative balance due to the pension liability per GASB 68 and OPEB liability per GASB 75. 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 Comprehensive Annual Financial Report (CAFR) that can be found in **Attachment C**.

Attachment B outlines recommended amendments to the FY 2020 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 CAFR 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 CAFR document, and highlights of key fiscal issues affecting the City can be found in the Management's Discussion and Analysis (MD&A) section (CAFR p. 5). The MD&A also provides a discussion and analysis of the City's current fiscal health and includes financial statements and analysis that is compared to the prior year, along with capital asset and debt administration data.

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

Financial Results

Government-wide Statements

Statement of Net Position

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

The City's net position was $1,225.6 billion on June 30, 2020 compared to the balance of $1,191.5 billion on June 30, 2019. Of the total increase of $34.1 million, or 2.9 percent, $43.5 million is from business-type activities partially offset by a decrease of $9.4 million from governmental activities.

The largest portion of the City's net position ($1,118.7 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 ($48.7 million - or 4.0 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of $58.2 million, across all funds, representing 4.8 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 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 deficit of $101.4 million in FY 2020 for the governmental activities included the impact of $291.9 million for the net pension liabilities and the related deferred inflows and outflows of resources and $93.2 million for the Net OPEB liabilities and the related deferred inflows and outflows of resources.

STATEMENT OF NET POSITION
As of June 30, 2020
(in millions)

	Governmental Activities		Business-type Activities		Government-wide Totals	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Cash and investments	$ 342.8	$ 354.0	$ 277.4	$ 253.4	$ 620.2	$ 607.4
Other assets	60.5	69.8	52.8	51.3	113.3	121.1
Capital assets	596.3	566.1	693.2	673.5	1,289.5	1,239.6
Deferred outflows	55.8	63.4	21.1	21.7	76.9	85.1
Total assets and deferred outflows	**1,055.4**	**1,053.3**	**1,044.5**	**999.9**	**2,099.9**	**2,053.2**
Net pension and OPEB liabilities	416.3	417.3	153.7	154.4	570.0	571.7
Long-term debt	112.5	115.1	74.5	74.2	187.0	189.3
Other liabilities	61.5	63.8	21.7	26.6	83.2	90.4
Deferred inflows	24.5	7.1	9.6	3.2	34.1	10.3
Total Liabilities	**614.8**	**603.4**	**259.5**	**258.4**	**874.3**	**861.8**
Net Position						
Net investment in capital assets	497.4	493.7	621.3	602.1	1,118.7	1,095.8
Restricted	44.6	45.6	4.1	4.0	48.7	49.7
Unrestricted	(101.4)	(89.4)	159.6	135.4	58.2	46.0
Total Net Position	**$ 440.6**	**$ 449.9**	**$ 785.0**	**$ 741.5**	**$ 1,225.6**	**$ 1,191.5**

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 2020 were $584.7 million, a decrease of $20.9 million or 3.5 percent compared to FY 2019, due to a $25.1 million decrease in Governmental Activities that is partially offset by a $4.2 million increase from Business Activities. Governmental Activities decreased $25.1 million mainly due to decreases in sales tax, transient occupancy tax, development and related activities, reduced programs and classes, and the closure of the golf course caused by the COVID-19 shelter in place order. Business Activities revenue increased $4.2 mainly due to rate increases in the Electric, Water, Wastewater collection, and Storm Drainage Funds, increased billing for capital, operating and sewage costs in the Wastewater Treatment Fund partially offset by decrease in Gas Fund revenues caused by the COVID-19 shelter in place order.

Expenses for the City in FY 2020 were $550.6 million, an increase of $21.0 million or 4 percent compared to FY 2019, due to an $8.6 million increase from Governmental Activities and a $12.5 million increase from Business-type expenses. The increase in Governmental Activities expense is driven by an adjustment to capital assets that was offset by disposal of capital asset expense. During this fiscal year, staff reviewed capital asset balances and determined that certain expenses, specifically repair and maintenance costs, should not have been capitalized per GAAP. The expense to correct these balances was recorded as part of Public Works functional expenses. The expense increase in Business Activities is driven by several cost categories and resulted in higher costs compared to prior year, including salaries and benefits, transmission costs in Electric Fund, and reimbursement to GreenWaste of Palo for new waste collection vehicles in Refuse Fund. These increases were partially offset by a decrease of lower commodity purchase costs due to lower than expected natural gas prices and transportation costs in Gas Fund.

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

	2020	2019	Increase / (Decrease)
Revenues			
Program Revenues	$ 428.6	$ 435.8	$ (7.2)
General Revenues	156.1	169.8	(13.7)
Total Revenues	$ 584.7	$ 605.6	$ (20.9)
Expenses			
Governmental Activities			
City Council	$ 0.2	$ 0.3	(0.1)
City Manager	3.6	3.3	0.3
City Attorney	2.8	3.1	(0.3)
City Clerk	0.8	0.8	(0.0)
City Auditor	0.6	1.1	(0.5)
Administrative Services	15.9	19.2	(3.3)
Human Resources	3.1	3.0	0.1
Public Works	45.6	36.6	9.0
Planning and Development Services	21.7	24.8	(3.1)
Office Of Transportation	4.7	0.0	4.7
Police	50.9	49.8	1.1
Fire	41.3	39.4	1.9
Community Services	34.1	36.8	(2.7)
Library	13.0	12.6	0.4
Interest and Other Expense	4.7	3.7	1.0
Business Type Activities			
Water	43.0	40.6	2.4
Electric	142.4	139.6	2.8
Fiber Optics	2.8	2.5	0.3
Gas	27.2	30.9	(3.7)
Wastewater Collection	18.9	17.3	1.6
Wastewater Treatment	28.8	27.1	1.7
Refuse	36.9	30.4	6.5
Storm Drainage	5.5	4.9	0.6
Airport	2.1	1.8	0.3
Total Expenses	$ 550.6	$ 529.6	$ 21.0
Change in Net Position	$ 34.1	$ 76.0	$ (41.9)

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2020, amounts to $1,289.5 billion (net of accumulated depreciation), which is a $49.9 million increase, or 4 percent increase, compared to FY 2019. The increase was primarily due to various projects such as Charleston/Arastradero Corridor, New Public Safety Building, California Avenue Parking Garage and Transmission, Distribution and Treatment systems for the various City utility services.

CAPITAL ASSETS AT JUNE 30
(in millions)

	2020	2019	Increase/ (Decrease)
Governmental activites			
Land and improvements	$ 82.2	$ 77.6	4.6
Street trees	14.8	14.7	0.1
Construction in progress	142.1	107.0	35.1
Building and improvements	251.1	247.3	3.8
Intangible assets	3.8	3.8	(0.0)
Equipment	79.2	74.9	4.3
Roadway network	335.2	334.3	0.9
Recreation and open space network	35.2	35.2	-
Less accumulated depreciation	(347.3)	(328.7)	18.6
Business-Type Activities			
Land	**5.0**	5.0	-
Construction in progress	121.1	158.0	(36.9)
Buildings and improvements	**74.0**	68.3	5.7
Capital Leases	**0.5**	0.5	-
Infrastructure	**0.6**	0.6	-
Transmission, distribution and treatment systems	884.8	822.4	62.4
Less accumulated depreciation	(392.8)	(381.3)	11.5
Total Capital Assets	**$ 1,289.5**	**$ 1,239.6**	**$ 49.9**

Long Term Debt

As of June 30, 2020, the City's long-term obligations totaled $808.1 million. The long-term obligations for the City include debt, claims payable, compensated absences, pension, other post-employment benefit (OPEB) obligations, and land fill closure.

LONG-TERM DEBT AT JUNE 30
(in millions)

	2020	2019	Increase/ (Decrease)
Governmental Activities			
General Obligation Bonds	$ 62.1	$ 64.0	$ (1.9)
Certificates of Participation	50.5	51.2	(0.7)
Claims payable	29.7	28.4	1.3
Compensated Absences	14.2	12.3	1.9
Net pension liability	325.8	312.0	13.8
Net OPEB liability	90.5	105.3	(14.8)
Business-type Activities			
Utility Revenue Bonds	$ 40.6	$ 44.4	$ (3.8)
Energy Tax Credit Bonds	0.1	0.2	(0.1)
State Water Resources Loan	33.8	29.6	4.2
Landfill post-closure	7.1	7.0	0.1
Net pension liability	117.2	111.9	5.3
Net OPEB liability	36.5	42.5	(6.0)
Total long term liabilities	$ 808.1	$ 808.8	$ (0.7)

Fund Financial Statements

General Fund

General Fund Reserves

At the end of the current fiscal year, fund balance of the General Fund was $61.9 million. The $61.9 million fund balance is comprised of several reserves: the BSR, reappropriations, notes and loans, inventory, prepaid items, and other general government special purpose reserves (this includes reserves for encumbrances, donations, and Excess ERAF). As described in the BSR reserve (City's general 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 2021 Adopted Operating Budget projected a $33.0 million BSR balance as of June 30, 2020, compared to the actual balance of $35.9 million (this is a component of the General Fund, fund balance noted above). This is $2.9 million above estimates; however, at $35.9 million the BSR is still $0.5 million below the Council's 18.5 percent target of the FY 2021 Adopted expenses of $36.4 million. As such, there are no recommended allocations or adjustments of any "excess" BSR funds as part of this report.

General Fund Revenues

General Fund revenues for FY 2020 were $180.4 million, which is $16.7 million or 8.5 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 2020	FY 2019	% Change Increase (Decrease)
Property tax	$ 51,089	$ 47,327	8.0%
Sales tax	30,563	36,508	(16.3%)
Utility user tax	16,140	16,402	(1.6%)
Transient occupancy tax	18,553	25,649	(27.7%)
Documentary transfer tax	6,903	6,923	(0.3%)

Property tax revenue increased $3.8 million or 8.0 percent, due to increased property assessed value growth and a $1.2 million increase compared to prior year of the ERAF distribution from the County of Santa Clara. These higher assessed values reflected the continued robust commercial and residential real estate markets during this period. Unlike other tax revenue, property taxes are not yet impacted from COVID-19.

Sales tax receipts were $5.9 million, or 16.3 percent lower compared to the prior fiscal year, due to economic disruptions caused by COVID-19. In the last quarter of FY 2020, the shelter in place order resulted in closure of populous locations and economic engines in the City such as downtown core, California Avenue, Stanford Shopping Center and other related business activities that significantly impacted the sales tax. A portion of the decrease is due to timing difference in receipts rather than performance. The State has offered certain businesses the option to defer sales tax payments through interest free payment plans. This plan allows large businesses to delay their sales and use taxes remittance for ninety days and small businesses to defer remittance over twelve months. In addition, FY 2019 receipts were higher by $0.7 million due to delay of distribution of sales tax in FY 2018 from California Department of Tax Fee Administration (CDTFA) resulting from the transition of the new technology and collection process.

Utility user tax revenues were $0.3 million, or 1.6 percent, lower compared to the prior year due to lower consumption of both utility commodity and telephone caused by COVID-19. The utility commodity rate increase for FY 2020 offsets with lower consumption.

Transient occupancy tax (TOT) ended the year $7.0 million, or 27.7 percent, lower than prior

year. In November 2018, Measure E was approved by voters to increase the TOT by 1.5 percent, from 14 percent to 15.5 percent. The new tax rate was implemented April 2019 however TOT began to decline almost a year ago by 3.1 percent and worsened as a result of COVID-19. During shelter in place in the last quarter of FY 2020, almost a dozen hotels, which represent 30 percent of available rooms, fully suspended operations. The remaining hotels' last quarter occupancy rate were in the low double digits and the average room rates dropped by over half. For the fiscal year, average occupancy and daily room rate was 61 percent and $265, respectively. 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 2020	FY 2019	% Change Increase (Decrease)
General Fund:	$ 11,567	$ 16,957	(31.8%)
Infrastructure Plan:			
New hotels – 12%	2,793	4,423	(36.9%)
All hotels – 3.5%	4,193	4,269	(1.8%)
Subtotal Infrastructure	*6,986*	*8,692*	*(19.6%)*
Total TOT Receipts	**$ 18,553**	**$ 25,649**	**(27.7%)**

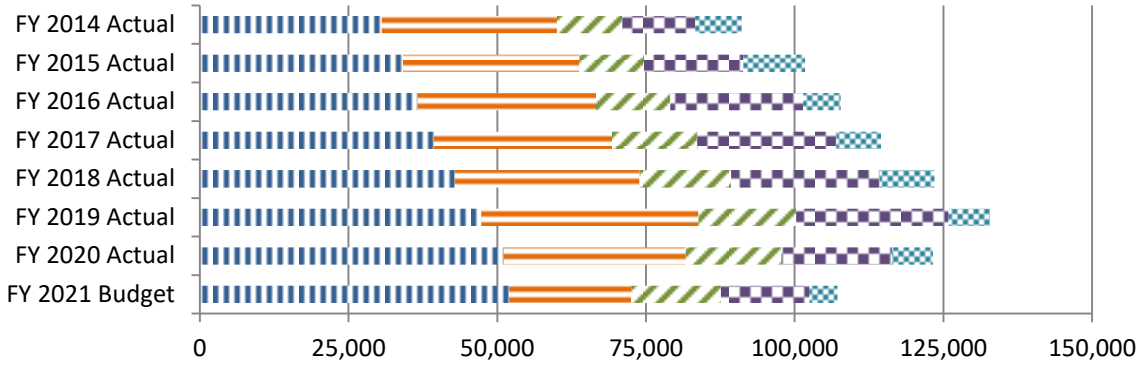
Documentary transfer tax had no significant change from FY 2019 to FY 2020 though in the last quarter of FY 2020 receipts declined by 40.9 percent and the number of sales declined 28.2 percent. Overall, the number of transactions for FY2020 were lower than FY 2019 by 13.6 percent. This revenue source is volatile since it is highly dependent on sales volume and the mix of commercial and residential sales.

Charges for services decreased $3.2 million or 11.7 percent. The decrease was primarily due to reduced programs and classes ($1.6 million), closure of golf course ($0.6 million) and fewer plan reviews and inspections ($1.0 million) during the initial phases of COVID-19 shelter in place order and limited operations afterwards.

All other revenues decreased from prior year by $2.9 million primarily due to the $2.4 million sale of the former City Manager's house in FY 2019 which was co-owned by the City.

The following is a chart which depicts the relative contribution of each tax category over the past seven years (2014 through 2020), as well as the current budgeted year (2021).

General Fund Tax Revenues
Actual Fiscal Years 2014 – 2020
Budget Fiscal Year 2021
($ in thousands)



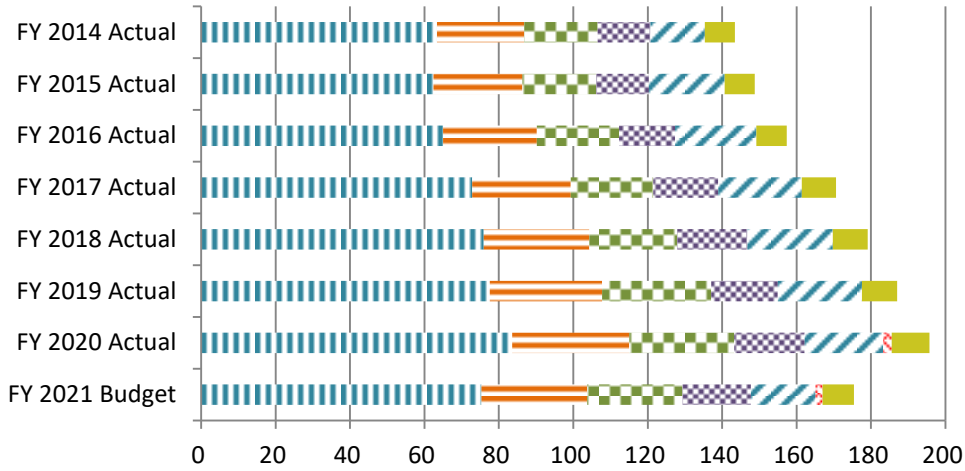
	FY 2021 Budget	FY 2020 Actual	FY 2019 Actual	FY 2018 Actual	FY 2017 Actual	FY 2016 Actual	FY 2015 Actual	FY 2014 Actual
Property Tax	52,000	51,089	47,327	42,839	39,381	36,607	34,117	30,587
Sales Tax	20,500	30,563	36,508	31,091	29,923	30,018	29,675	29,424
Utility User Tax	15,100	16,140	16,402	15,414	14,240	12,469	10,861	11,008
Trans Occ Tax	14,900	18,553	25,649	24,937	23,477	22,366	16,699	12,255
Doc Transfer Tax	4,700	6,903	6,923	9,229	7,491	6,266	10,384	7,811

General Fund Expenditures

General Fund expenditures for FY 2020, including encumbrances and reappropriations, totaled $202.1 million; an increase of 4.7 percent from the prior year. The Adopted Budget of $196.8 million was increased to the Final Adjusted Budget amount of $206.4 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 2021.

General Fund Departments
Actual Expenditures Fiscal Years 2014– 2020 (including reappropriations and encumbrances)
Budgeted Expenditures Fiscal Year 2021
($ in thousands)



	FY 2021 Budget	FY 2020 Actual	FY 2019 Actual	FY 2018 Actual	FY 2017 Actual	FY 2016 Actual	FY 2015 Actual	FY 2014 Actual
Public Safety	75,340	83,616	77,592	75,975	72,815	65,005	62,459	63,403
Community Services	28,362	31,489	30,201	28,395	26,573	25,262	23,902	23,402
Admin Depts	25,637	28,169	29,304	23,538	22,157	22,059	19,771	19,784
Public Works	18,427	18,932	17,928	18,908	17,475	15,084	14,210	14,138
Planning and Development Services	17,386	21,098	22,606	23,006	22,400	21,784	20,361	14,637
Office Of Transportation	1,904	2,360						-
Library	8,421	10,092	9,491	9,357	9,266	8,217	8,144	8,072

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 $83.6 million, which are comprised of the following:

Fund Balance Component	Amount ($ in millions)
Restricted for Library projects	$ 598
Reserved for Roth Building rehabilitation	5,146
Reserved for Cubberley expenditures	4,203
Restricted for California Avenue Parking Garage	12,980
Assigned for all other Capital projects	60,704
Total Capital Projects Fund Balance	$ 83,631

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

Restricted for California Avenue Parking Garage $13.0 million represents the remaining bond funding dedicated to the construction of the new California Avenue parking garage.

Assigned for all other Capital projects of $60.7 million represents the amount of unspent funds associated with Adopted Capital projects and other noted items. Outside funding sources such as grants, donations and future debt issues are not factored into this component of the fund balance until they are actually received.

Enterprise Funds

The City's Enterprise Funds reported a total Net Position of $781.1 million, a $39.6 million increase from the prior year. The overall change in Net Position was driven by the Electric Fund, Water Fund, and Airport Fund. The table below summarizes the overall change in Net Position for each Enterprise Fund. Compared to FY 2019, the Change in Net Position for Enterprise funds decreased $14.8 million driven primarily by the Gas Fund and Refuse 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	2020	2019	Increase/ (Decrease)
Water	$ 8.0	$ 8.0	$ -
Electric	18.6	19.0	(0.4)
Fiber Optics	2.9	3.5	(0.6)
Gas	3.0	5.3	(2.3)
Wastewater Collection	2.1	3.3	(1.2)
Wastewater Treatment	0.3	1.5	(1.2)
Refuse	(3.1)	4.9	(8.0)
Storm Drainage	2.2	2.3	(0.1)
Airport	5.6	6.6	(1.0)
Total Change in Net Position	**$ 39.6**	**$ 54.4**	**$ (14.8)**

The Gas Fund decreased $2.3 million compared to prior year due to decrease in revenues as a result of lower consumption; increase in operating expenses partially offset by the decrease in commodity purchase costs due to lower than expected natural gas prices and transportation costs.

The change in net position for Wastewater Collection Fund decreased $1.2 million due to higher operating expenses offset by the increase in revenues because of the 7.0 percent rate increase effective July 1, 2019.

The change in net position for Wastewater Treatment Fund decreased $1.2 million due to increase in operating expenses because of higher sewage treatment operation and maintenance cost offset by the increase in revenues resulting from higher partner's billing.

The Refuse Fund decreased by $8.0 million due to lower revenues from the reduction of services by commercial and industrial customers due to COVID-19 and increase in GreenWaste of Palo Alto charges for reimbursement of new waste collection vehicles.

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 CAFR (CAFR p. 84, Footnote 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, 2020. Adjustments for the Pension Reserve (as required by GASB Pronouncement No. 68) and OPEB Reserve (as required by GASB Pronouncement No. 75) total $142.4 million for all Enterprise Funds and reduce each fund's unrestricted net position.

The Wastewater Treatment Fund reflects a $10.5 million Unrestricted Reserve deficit and is driven by $28.3 million in Pension Reserves and OPEB Reserves negative adjustments.

The Airport Fund reports a $4.4 million deficit net position which is attributed to the $1.3 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 $5.6 million change in net position of Airport Fund in current year is not driven by operations but due to $5.5 million grants received in current year. The General Fund transferred a series of advances totaling $3.1 million for "start-up" costs for the airport and repayment to the General Fund started in FY 2020.

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

Fund Name	2020	2019	Increase/ (Decrease)
Water	$ 28.2	$ 25.5	$ 2.7
Electric	83.6	69.8	13.8
Fiber Optics	33.0	30.2	2.8
Gas	8.5	7.5	1.0
Wastewater Collection	1.2	2.2	(1.0)
Wastewater Treatment	(10.5)	(13.8)	3.3
Refuse	12.1	15.1	(3.0)
Storm Drainage	4.0	1.9	2.1
Airport	(4.4)	(3.3)	(1.1)
Total Change in Reserves (Unrestricted)	**$ 155.7**	**$ 135.3**	**$ 20.4**

Resource Impact

Recommended actions in the report will align the FY 2020 appropriations with final financial activities as outlined in Attachment B. Overall, the City ended the FY 2020 in a positive net position and in certain areas where net reserves were higher than estimated in the development of the FY 2021 Adopted budget, those additional funds will be included as part of the FY 2021 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, and 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 to Actuals
- Attachment B: Recommended FY20 Year-end Clean-up Actions
- Attachment C: City of Palo Alto FY2020 Comprehensive Annual Financial Report

Attachment A

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

	GENERAL FUND SUMMARY ($000s)						
	FY 2020 Adopted Budget	FY 2020 Adjusted Budget	FY 2020 Rev/Exp Actuals	FY 2020 Allocated Charges	FY 2020 Encum / Reappropriation	FY 2020 Actual Rev/Exp	FY 2020 Actual to Adj Budget Variance
Revenues							
Sales Tax	34,346	30,617	30,563			30,563	(54)
Property Tax	48,634	50,853	51,089			51,089	236
Transient Occupancy Tax	29,309	19,425	18,553			18,553	(871)
Documentary Transfer Tax	8,369	6,676	6,903			6,903	227
Utility User Tax	17,581	16,133	16,140			16,140	7
Other Taxes, Fines and penalties	2,032	1,237	1,172			1,172	(64)
Charges for Services	30,127	25,196	24,127			24,127	(1,068)
Permits and Licenses	8,667	6,597	7,467			7,467	870
Investment Earnings	1,433	1,433	1,480			1,480	47
Rental Income	16,326	16,041	15,964			15,964	(77)
From Other Agencies	2,756	3,245	3,783		518	4,301	1,057
Charges to Other Funds	10,908	10,908		11,099		11,099	190
Other Revenues	587	619	585	-		585	(34)
Total Revenues	**211,076**	**188,980**	**177,828**	**11,099**	**518**	**189,445**	**465**
Add: Operating Transfers In	20,999	20,840	20,840			20,840	-
Prior Year Encum / Reappropriation		6,469	6,469			6,469	-
Total Source of Funds	**232,075**	**216,289**	**205,137**	**11,099**	**518**	**216,754**	**465**
Expenditures							
City Attorney	3,387	3,896	2,509	1,013	268	3,789	107
City Auditor	1,235	1,157	680	259	42	981	176
City Clerk	1,346	1,402	815	319	52	1,186	216
City Council	498	542	214	111	89	414	128
City Manager	4,546	4,718	3,273	1,073	325	4,671	47
Administrative Services	8,519	8,770	5,960	2,321	234	8,515	255
Community Services	30,929	31,591	29,603	197	1,689	31,489	103
Fire	34,889	36,773	36,440	163	169	36,772	1
Human Resources	3,902	4,107	2,792	1,095	107	3,994	113
Library	10,314	10,187	9,988	-	104	10,092	95
Office of Transportation	2,312	2,733	2,052	-	308	2,360	373
Planning and Development Services	20,356	22,021	19,269	328	1,501	21,098	923
Police	46,369	46,845	45,679	577	589	46,844	1
Public Works	19,142	19,357	13,577	3,643	1,713	18,932	425
Non-Departmental	2,744	5,874	3,722	-	898	4,618	1,255
Cubberley Lease	6,284	6,438	6,385	-		6,385	53
Total Expenditures	**196,773**	**206,412**	**182,956**	**11,099**	**8,088**	**202,141**	**4,271**
Add: Operating Trans Out	5,023	8,049	8,049	-		8,049	-
Transfer to Infrastructure	28,962	24,172	24,172	-		24,172	-
Total Use of Funds	**230,758**	**238,633**	**215,177**	**11,099**	**8,088**	**234,362**	**4,271**
Net Surplus/(Deficit)	**1,317**	**(22,344)**	**(10,040)**	**-**	**8,088**	**(17,608)**	**4,736**

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND (102)			
City Manager's Office	**Departmental Expense Savings** This action reallocates departmental vacancy savings within the General Fund in order to offset departments with higher than anticipated expenses in FY 2020.	$ -	$ (780,000)
Fire	**Salaries & Benefits** This action reallocates funding as a result of higher than anticipated salary expenses in FY 2020. These higher anticipated expenditures are due to a number of variables including the Department continuing to hire ahead for its recruit academy in an attempt to reduce sworn vacancies. In addition, payments for disability/worker's compansation were higher than budgeted. These overages were partially offset by overtime savings.	$ -	$ 764,000
Non-Departmental	**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.	$ (171,173)	$ (171,173)
Police	**Salaries & Benefits** This action reallocates funding as a result of higher than anticipated salary expenses in FY 2020. This overage is primarily due to preliminary budget adjustments in Q3 2020 that reduced the Police Department budget by $350,000 for anticipated expense savings (CMR 11328). These savings did not materialize due to a number of variables including use of overtime for significant vacancies in the Dispatch and Patrol teams, and response to protests.	$ -	$ 392,000
Public Works	**Departmental Expense Savings** This action reallocates departmental vacancy savings within the General Fund in order to offset departments with higher than anticipated expenses in FY 2020.	$ -	$ (376,000)
	GENERAL FUND (102) SUBTOTAL	**$ (171,173)**	**$ (171,173)**

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
CAPITAL IMPROVEMENT FUNDS			
GENERAL FUND CAPITAL IMPROVEMENT FUND (471)			
Capital	**Capital Improvement Project Adjustments** This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	$ -	$ 811,000
Capital	**Transfer from General Fund** This action decreases 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 lower than budgeted in FY 2020.	$ (171,173)	$ -
Capital	**Transfer to Parkland Dedication Fee Fund** This action transfers funding back to the Parkland Dedication Fee Fund that was intended to be used for the Turf Management Plan capital project (PG-18002). This project was defunded as part of the development of the 2021-2025 Capital Improvement Plan (CIP) due to budget constraints and a reprioritization of projects.	$ -	$ 100,000
Capital	**Transfer to Parks Develpoment Impact Fee Fund** This action transfers funding back to the Parks Development Impact FeeFund that was intended to be used for the Baylands Athletic Center 10.5 Acre Expamnsion Plan capital project (PG-19001). This project was defunded as part of the development of the 2021-2025 CIP due to budget constraints and a reprioritization of projects.	$ -	$ 85,000
Capital	**Transfer to California Avenue Parking Garage COP Fund** This action transfers funding to the California Avenue Parking Garage (Certificates of Participation) COP Fund to fund the debt services costs associated with the issuance of the New California Avenue Area Parking Garage (PE-18000) COP funding. This funding was previously budgeted to be spent directly in the Capital Improvment Fund. A corresponding action reduces the debt service payment budgeted in the Capital Improvement Fund.	$ -	$ 2,335,000
Capital	**Transfer from Gas Tax Fund** This action increases the transfer from the Gas Tax Fund due to actual revenue collected being higher than budgeted in FY 2020. A corresponding transfer is recommended from the Gas Tax Fund to the Capital Improvement Fund. The funding will be appropriated to the Street Maintenance capital project (PE-86070) as part of the FY 2021 Mid-Year Budget Review.	$ 156,270	$ -
Capital	**Debt Service Payments** This action reduces funding for the debt service costs associated with the issuance of the 2019 California Avenue Parking Garage COP funding. Corresponding actions in this report transfer funding for these costs to the California Avenue Parking Garage COP Fund and appropriate funding for the debt service costs to be paid out of the California Avenue Parking Garage COP Fund.		$ (2,335,000)
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report.	$ -	$ (1,010,903)
	GENERAL FUND CAPITAL IMPROVEMENT FUND (471) SUBTOTAL	**$ (14,903)**	**$ (14,903)**

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
CAPITAL IMPROVEMENT FUNDS			
CUBBERLEY PROPERTY INFRASTRUCTURE FUND (472)			
Capital	**Capital Improvement Project Adjustments** This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	$ -	$ 13,400
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report.	$ -	$ (13,400)
	CUBBERLEY PROPERTY INFRASTRUCTURE FUND (472) SUBTOTAL	**$ -**	**$ -**

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
ENTERPRISE FUNDS			
ELECTRIC FUND (513 & 523)			
Capital	**Capital Improvement Project Adjustments** This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	$ -	$ 594,200
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report.	$ -	$ (594,200)
	ELECTRIC FUND (513 & 523) SUBTOTAL	**$ -**	**$ -**
STORMWATER MANGEMENT FUND (528)			
Capital	**Capital Improvement Project Adjustments** This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	$ -	$ 16,000
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report.	$ -	$ (16,000)
	STORMWATER MANGEMENT FUND (528) SUBTOTAL	**$ -**	**$ -**
WATER FUND (522)			
Capital	**Capital Improvement Project Adjustments** This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	$ -	$ 260,000
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report.	$ -	$ (260,000)
	WATER FUND (522) SUBTOTAL	**$ -**	**$ -**

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
INTERNAL SERVICE FUNDS			
INFORMATION TECHNOLOGY FUND (682)			
Capital	**Capital Improvement Project Adjustments** This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	$ -	$ 3,400
Fund Balance	**Adjustment to Fund Balance** This action decreases the fund balance to offset adjustments recommended in this report.	$ -	$ (3,400)
	INFORMATION TECHNOLOGY FUND (682) SUBTOTAL	**$ -**	**$ -**
WORKERS' COMPENSATION FUND (688)			
Non-Departmental	**Charges to Other Funds** This action increases the estimate for charges to other funds by $1,300,000 ($870,000 in the General Fund) due to an updated actuarial analysis in August 2020 for workers' compensation that have been incurred but not reported (IBNR) being $3.4 million higher than budgeted. Of this amount, $1.3 million was charged to departments to offset this exense and ensure positive fund balance. Departments had sufficient savings at the end of FY 2020 to support the additional costs and did not require budgetary adjustments.	$ 1,300,000	$ -
Non-Departmental	**Liability Insurance** This action increases the appropriation for liability insurance expense by $900,000 due to an updated actuarial analysis in August 2020 for general liabilities that have been incurred but not reported (IBNR) being $3.4 million higher than budgeted. The additional liability expense has been fully recognized in FY 2020 and has been partially recovered through additional allocations to departments. Due to sufficient savings elsewhere in the General Liability Fund a reduced adjustment of $0.9 million is recommended for the additional liability expense.	$ -	$ 900,000
Fund Balance	**Adjustment to Fund Balance** This action increases the fund balance to offset adjustments recommended in this report.	$ -	$ 400,000
	WORKERS' COMPENSATION FUND (688) SUBTOTAL	**$ 1,300,000**	**$ 1,300,000**

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
SPECIAL REVENUE FUNDS			
GAS TAX FUND (231)			
Non-Departmental	**State of California Revenue: SB1/Transfer to Capital Improvement Fund** This action increases the revenue estimate for State of California SB1 allocations to align with higher than anticipated actuals during the period. In FY 2020, the total allocation to the City was $1,310,000 which was $156,000 higher than preliminary estimates from the State Department of Finance. Funding from SB1 is earmarked for transportation and traffic-related capital projects and was used during the period to partially fund the Street Maintenance Capital Improvement Project (PE-86070). The additional revenues are recommended to offset an additional appropriation to this project through a corresponding transfer from the Gas Tax Fund to the Capital Fund.	$ 156,270	$ 156,270
	GAS TAX FUND (231) SUBTOTAL	**$ 156,270**	**$ 156,270**
HAMILTON AVENUE - PUBLIC BENEFIT FUND (235)			
Planning & Development Services	**Unit Resale Revenue** This action increases the estimate for unit resales as result of higher than anticipated revenues in FY 2020. Revenues in this fund were established through a developer deposit of $500,000 for the senior housing project on Hamilton Avenue ("The Hamilton") to provide funding for senior services. Additional revenue is generated through interest earnings and 2.5 percent of the sales price of units.	$ 239,000	$ -
Planning & Development Services	**Grants & Subsides** This action increases the grants and subsidies appropriation as result of slightly higher than anticipated expenses in FY 2020. Grant & Subsidy expenditures in this fund are attributable to accumulated interest earnings that are required to be paid to the Avenidas agency (formerly Senior Coordinating Council) to provide services to seniors.	$ -	$ 8,500
Fund Balance	**Adjustment to Fund Balance** This action increases the fund balance to offset adjustments recommended in this report.	$ -	$ 230,500
	HAMILTON AVENUE - PUBLIC BENEFIT FUND (235) SUBTOTAL	**$ 239,000**	**$ 239,000**
PARKLAND DEDICATION FEE FUND (209)			
Community Services	**Transfer from Capital Improvement Fund** This action transfers funding from the Capital Improvement Fund that was intended to be used for the Turf Management Plan capital project (PG-18002). This project was defunded as part of the development of the 2021-2025 Capital Improvement Plan (CIP) due to budget constraints and a reprioritization of projects.	$ 100,000	$ -
Fund Balance	**Adjustment to Fund Balance** This action increases the fund balance to offset adjustments recommended in this report.	$ -	$ 100,000
	PARKLAND DEDICATION FEE FUND (209) SUBTOTAL	**$ 100,000**	**$ 100,000**

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
SPECIAL REVENUE FUNDS			
PARKS DEVELOPMENT IMPACT FEE FUND (210)			
Community Services	**Transfer from Capital Improvement Fund** This action transfers funding from the Capital Improvement Fund that was intended to be used for the Baylands Athletic Center 10.5 Acre Expamnsion Plan capital project (PG-19001). This project was defunded as part of the development of the 2021-2025 CIP due to budget constraints and a reprioritization of projects.	$ 85,000	$ -
Fund Balance	**Adjustment to Fund Balance** This action increases the fund balance to offset adjustments recommended in this report.	$ -	$ 85,000
	PARKS DEVELOPMENT IMPACT FEE FUND (210) SUBTOTAL	**$ 85,000**	**$ 85,000**
PUBLIC ART FUND (207)			
Community Services	**Public Art Fee Revenue** This action increases the estimate for Art Fees as result of higher than anticipated revenues in FY 2020.	$ 185,000	$ -
Community Services	**Salaries & Benefits** This action increases the salaries and benefits appropriation as result of slightly higher than anticipated expenses in FY 2020.	$ -	$ 1,700
Fund Balance	**Adjustment to Fund Balance** This action increases the fund balance to offset adjustments recommended in this report.	$ -	$ 183,300
	PUBLIC ART FUND (207) SUBTOTAL	**$ 185,000**	**$ 185,000**
PUBLIC SERVICES DONATION FUND (191)			
Various	**Donations Revenue/Non-Salary Expenses** This action increases the appropriation for expenses in the Public Services Donation Fund to align with FY 2020 year end expense and encumbered funds. Donations in this fund are for activities such as parks and open space activities, art center programs, and animal care services. A corresponding adjustment to revenue reflecting higher than budgeted donations is recommended to offset this increase.	$ 65,000	$ 41,000
Fund Balance	**Adjustment to Fund Balance** This action increases the fund balance to offset adjustments recommended in this report.	$ -	$ 24,000
	PUBLIC SERVICES DONATION FUND (191) SUBTOTAL	**$ 65,000**	**$ 65,000**

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
DEBT SERVICE & AGENCY TRUST FUNDS			
2019 CALIFORNIA AVENUE PARKING GARAGE COP FUND (362)			
Administrative Services	**Transfer from Capital Improvement Fund/Debt Service Payments** This action transfers funding from the Capital Improvement Fund to fund the debt services costs associated with the issuance of the New California Avenue Area Parking Garage (PE-18000) COP funding. This action also appropriates funding for principal and interest payments in order to repay the debt service associated with the COP funding. These debt service payments were previously budgeted in the Capital Improvement Fund.	$ 2,335,000	$ 2,335,000
	2019 CALIFORNIA AVENUE PARKING GARAGE COP FUND (362) SUBTOTAL	**$ 2,335,000**	**$ 2,335,000**
EYERLY TRUST FUND (774)			
Administrative Services	**Investment Income/General Expense (Special Events)** This action increases the interest income revenue collected in this fund to align the budget with the actual revenue collected. A corresponding increase to the appropriation for General Expenses within the fund is also recommended to align budget levels with actual expenditures in FY 2020.	$ 12,000	$ 7,000
Fund Balance	**Adjustment to Fund Balance** This action increases the fund balance to offset adjustments recommended in this report.	$ -	$ 5,000
	EYERLY TRUST FUND (774) SUBTOTAL	**$ 12,000**	**$ 12,000**
UNIVERSITY AVENUE PARKING ASSESSMENT AGENCY FUND (775)			
Administrative Services	**Special Asessment District Fees/Contract Services** This action increases the Special Assessment District Fee revenue collected in this fund to align the budget with the actual revenue collected. A corresponding increase to the appropriation for Contract Services within the fund is also recommended to align budget levels with actual expenditures in FY 2020.	$ 21,000	$ 6,000
Fund Balance	**Adjustment to Fund Balance** This action increases the fund balance to offset adjustments recommended in this report.	$ -	$ 15,000
	UNIVERSITY AVENUE PARKING ASSESSMENT AGENCY FUND (775) SUBTOTAL	**$ 21,000**	**$ 21,000**

ATTACHMENT B, EXHIBIT 2

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 CAPITAL IMPROVEMENT PROGRAM

Project Number	Title	Revenue	Expense	Comments
	CAPITAL IMPROVEMENT FUND			
AS-10000	Capital Improvement Fund Administration		$ (453,981)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
AC-86017	Art in Public Places		$ 44,500	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
AC-18001	JMZ Renovation		$ 123,600	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
FD-14002	Fire Ringdown System Replacement		$ 7,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
FD-20000	Cardiac Monitor Replacement		$ 24,161	Adjustment to shift a Transfer from the Utility Administration Fund to FY 2020 to align with project expenditures.
OS-00001	Open Space Trails and Amenities		$ 62,200	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-17008	City Hall Floor 4 Remodel		$ 1,380	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-17009	City Hall Floor 5 Remodel		$ 7,600	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-19003	Birch Street Improvements		$ 136,120	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-20001	City Bridge Improvements		$ 6,370	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PF-14002	Fire Station 1 Improvements		$ 330	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PG-06001	Athletic Courts Resurfacing		$ 8,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PG-17000	Baylands Comprehensive Conservation Plan		$ 2,400	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PL-19000	Emergency Vehicle Traffic Signal Preemption System Pilot		$ 26,420	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-15003	Fire Station No. 3 Replacements		$ 394,100	Adjustment to allocate Salaries and Benefits ($3,900) and increase project ($390,200) due to higher than anticipated expenditures in FY 2020.
PE-14015	Lucie Stern Buildings Mechanical and Electrical Upgrades		$ (251,000)	Adjustment to allocate unspent expenses due to project competion in FY 2020.
PL-15004	Downtown Parking Wayfinding		$ (139,200)	Adjustment to allocate unspent expenses due to project competion in FY 2020.
PE-15001	New Public Safety Building		$ 811,000	Adjustment to increase project due to higher than anticipated expenditures in FY 2020.
	Total	**$ -**	**$ 811,000**	

ATTACHMENT B, EXHIBIT 2

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 CAPITAL IMPROVEMENT PROGRAM

Project Number	Title	Revenue	Expense	Comments
CUBBERLEY PROPERTY INFRASTRUCTURE FUND				
CB-19000	Cubberley Track and Field Replacement		$ 13,400	Increase to project due to higher than anticipated expenditures.
	Total	**$ -**	**$ 13,400**	
ELECTRIC FUND				
EL-02010	SCADA System Upgrade		$ 5,200	Increase to project due to higher than anticipated expenditures.
EL-89028	Electric Customer Connections		$ 589,000	Increase to project due to higher than anticipated expenditures.
	Total	**$ -**	**$ 594,200**	
STORMWATER MANAGEMENT FUND				
SD-20000	Storm Drain Pump Station		$ 16,000	Increase to project due to higher than anticipated expenditures.
	Total	**$ -**	**$ 16,000**	
TECHNOLOGY FUND				
TE-01012	IT Disaster Recovery		$ 3,400	Increase to project due to higher than anticipated expenditures.
	Total	**$ -**	**$ 3,400**	
WATER FUND				
WS-80013	Water System, Customer Connections		$ 260,000	Increase to project due to higher than anticipated expenditures.
	Total	**$ -**	**$ 260,000**	
TOTAL CIP ADJUSTMENTS		**$ -**	**$ 1,698,000**	



City of Palo Alto, California

Fiscal Year Ended
June 30, 2020

COMPREHENSIVE ANNUAL FINANCIAL REPORT

LINK

CITY OF
PALO
ALTO

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CITY OF PALO ALTO

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TO: **HONORABLE COUNCIL MEMBERS**

FROM: **KIELY NOSE, ADMMINISTRATIVE SERVICES DIRECTOR**

DATE: **FINANCE COMMITTEE MEETING DECEMBER 1, 2020**

SUBJECT: **RECOMMENDATION TO THE CITY COUNCIL TO APPROVE THE FY 2020 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) & FY2020 BUDGET AMENDMENTS IN VARIOUS FUNDS**

In reviewing the staff report (CMR #11741), staff noticed an inadvertent error in the "Statement of Net Position" and ensuing write up for "Government Wide Statements – Statement of Net Position." The revised table and language below corrects for this clerical error. It is important to note that the CAFR document itself is accurate, this is only a clerical error in the staff report.

CORRECTED SECTION

Financial Results

Government-wide Statements

Statement of Net Position

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

The City's net position was $1,225.6 billion on June 30, 2020 compared to the balance of $1,191.5 billion on June 30, 2019. Of the total increase of $34.1 million, or 2.9 percent, $43.5 million is from business-type activities partially offset by a decrease of $9.4 million from governmental activities.

The largest portion of the City's net position ($1,118.7 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 ($77.4 million - or 6.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of $29.5 million, across all funds, representing 2.4 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.

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The unrestricted net position for the governmental activities portion is negative due to 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 deficit of $130.1 million in FY 2020 for the governmental activities included the impact of $291.9 million for the net pension liabilities and the related deferred inflows and outflows of resources and $93.2 million for the Net OPEB liabilities and the related deferred inflows and outflows of resources.

STATEMENT OF NET POSITION

As of June 30, 2020

(in millions)

	Governmental Activities		Business-type Activities		Government-wide Totals	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Cash and investments	$ 342.8	$ 354.0	$ 277.4	$ 253.4	$ 620.2	$ 607.4
Other assets	60.5	69.8	52.8	51.3	113.3	121.1
Capital assets	596.3	566.1	693.2	673.5	1,289.5	1,239.6
Deferred outflows	55.8	63.4	21.1	21.7	76.9	85.1
Total assets and deferred outflows	**1,055.4**	**1,053.3**	**1,044.5**	**999.9**	**2,099.9**	**2,053.2**
Net pension and OPEB liabilities	416.3	417.3	153.7	154.4	570.0	571.7
Long-term debt	112.5	115.1	74.5	74.2	187.0	189.3
Other liabilities	61.5	63.8	21.7	26.6	83.2	90.4
Deferred inflows	24.5	7.1	9.6	3.2	34.1	10.3
Total Liabilities and deferred inflows	**614.8**	**603.4**	**259.5**	**258.4**	**874.3**	**861.8**
Net Position						
Net investment in capital assets	497.4	493.7	621.3	602.1	1,118.7	1,095.8
Restricted	73.3	59.7	4.1	4.0	77.4	63.7
Unrestricted	(130.1)	(103.4)	159.6	135.4	29.5	32.0
Total Net Position	**$ 440.6**	**$ 450.0**	**$ 785.0**	**$ 741.5**	**$ 1,225.6**	**$ 1,191.5**

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Kiely Nose
Director of Administrative Services

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Ed Shikada
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Ed Shikada
City Manager

FINANCE COMMITTEE
ACTION MINUTES

Regular Meeting
December 1, 2020

The Finance Committee of the City of Palo Alto met on this date in Virtual Teleconference at 7:01 P.M.

Present: DuBois, Kniss, Tanaka

Absent:

Agenda Items

1. Discussion and Recommendation to the City Council to Accept Macias Gini & O'Connell's Audit of the City of Palo Alto's Financial Statements as of June 30, 2020 and the Management Letter.

MOTION: Council Member Kniss moved, seconded by Vice Mayor DuBois to recommend the City Council approve the City of Palo Alto's audited financial statements for the fiscal year ending June 30, 2020 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) 2020 Comprehensive Annual Financial Report (CAFR) and FY 2020 Budget Amendments in Various Funds.

MOTION: Council Member Kniss moved, seconded by Vice Mayor DuBois to recommend that the City Council approve the City's Fiscal Year 2020 Comprehensive Annual Financial Report (CAFR).

MOTION PASSED: 3-0

MOTION: Council Member Kniss moved, seconded by Vice Mayor DuBois to recommend that the City Council approve amendments to the Fiscal Year (FY) 2020 Budget Appropriation Ordinance for various funds as identified in the attached Recommended Amendments to the City Manager's FY 2020 Budget.

MOTION PASSED: 2-1 Tanaka no

ACTION MINUTES

3. Staff and the Utilities Advisory Commission Recommend the Finance Committee Recommend the City Council Approve the 2025 Base Resource Power Supply Contract for the Central Valley Project With Western Area Power Administration to Preserve the City's Options to Maintain, Terminate, or Reduce its Allocation Until June 30, 2024.

MOTION: Vice Mayor DuBois moved, seconded by Council Member Kniss to recommend that the City Council approves the extension of the City of Palo Alto's current electricity supply contract, which is the 2025 Base Resource Contract for the Central Valley Project (CVP) with the Western Area Power Administration (WAPA) titled, "Contract 20-SNR-02365 United States Department of Energy Western Area Power Administration Sierra Nevada Region contract for electric service base resource with City of Palo Alto" for the full amount of generation available (12.06299% share), to preserve the City's options to maintain, terminate, or reduce its allocation until June 30, 2024, to be reviewed by Council before the expiration date as part of the integrated resources plan.

MOTION PASSED: 3-0

Adjournment: The meeting was adjourned at 10:00 P.M.