



BUDGET IN BRIEF



FISCAL YEAR 2027

PALO ALTO AT A GLANCE

INCORPORATION:

April 23, 1894

GOVERNMENT:

Palo Alto is a Charter City operating under the Council-Manager form of government.

POPULATION:

Approx. 67,237

AREA:

25.85 square miles

CREDIT RATING:

AAA, highest possible credit rating

INFRASTRUCTURE AND UTILITIES:

Streets: 471 miles

Water Mains: 231 miles

Water Delivered to Customers:

8.8 million gallons per day

Wastewater Mains: 208 miles

Wastewater Treated:

7.1 million gallons per day

Gas Mains: 211 miles

Overhead Electrical Lines: 205 miles

Underground Electrical Lines: 289 miles

Fiber Optic Backbone: 56 miles

PRINCIPAL EMPLOYERS:

- Stanford (University and Healthcare)
- Broadcom Inc. (VMware Inc)
- Varian Medical Systems
- Hewlett-Packard Company
- Veterans Affairs Palo Alto Health Care System
- Wilson Sonsini Goodrich & Rosati
- City of Palo Alto
- Roche Palo Alto LLC
- Brocade Communication Systems LLC
- Workday, Inc.

PARKS, RECREATION, & COMMUNITY CENTERS:

Parks, Preserves, and Open Space: 4,374.13 acres

Parks: 33

Dog Parks: 5

Playgrounds: 30

Community Centers and Museums: 6

Gymnasiums and Fitness Rooms: 4

Walking/Biking Trails: 41 miles

PUBLIC SAFETY:

Police Calls for Service: 42,313

Fire/Ambulance Calls for Service: 9,840

Police Vehicles: 30

Police Motorcycles: 3

Canine Units: 2

Fire Stations: 7

Fire Engines: 9

Fire Trucks: 1

Ambulances: 6

LIBRARIES:

Library Branches: 5

Items Checked Out: 1,051,836

Books: 253,442

eBooks and eMusic: 285,122

Audio Visual Materials: 32,780

Reference Questions: 6,965



DEAR PALO ALTANS

I am pleased to present this summary of our City's Fiscal Year (FY) 2027 Budget, adopted by the City Council on June 15, 2026. This \$1.04 billion balanced budget will be in effect from July 1, 2026, through June 30, 2027, including a Capital Budget of \$316.8 million and a General Fund Budget of \$312.0 million. The budget represents a continuation of the investments made by the Council last year in providing high quality services, while reflecting comprehensive budget strategies including revenue enhancement, careful spending reductions, government efficiencies, and management of contracts, liabilities, and reserves to prioritize high-quality services for the community and advance City Council priorities.

The budget balances continued positive momentum against external pressures that impact the City's fiscal health—such as persistent economic uncertainty, tariffs, inflation, supply chain interruptions, and state/federal administration policy agendas, requiring that the City strategically prepare to adapt as needed. We are currently navigating a period of adjustment in our major tax revenue, which contributes to a projected General Fund deficit of \$17.1 million (or 5.5%). This budget addresses fiscal challenges through comprehensive budget balancing strategies – including \$5.9 million in thoughtful spending reductions and government efficiencies, \$1.7 million in revenue enhancements, \$2.6 million in one-time resources, a \$1.5 million capital reduction, and \$4.5 million in proactive pension and retiree healthcare solutions. This budget sustains core services while maintaining a Budget Stabilization Reserve of \$53.7 million (17.2% of General Fund expenditures) to safeguard the City's fiscal resilience.

Highlights of this year's budget include:

- Realizing government efficiencies and organizational modernization through a net decrease of 21.25 FTE (total authorized staffing of 1,089.10 FTE in FY 2027) and 6.00 frozen positions, largely avoiding layoffs through proactive vacancy management, and prioritizing customer-facing services while modernizing administrative operations.
- Sustaining emergency response and public safety by maintaining our fundamental commitment to emergency medical services through the Single-Role EMS Division for 12-hour peak ambulance coverage, civilianizing police special events coordination, investing \$289,000 for Police Field Contact Recording technology, and funding scheduled replacement cycles for fire apparatus and police vehicles.
- Achieving near-term housing milestones by funding mandated Housing Element compliance programs and completing the Palo Alto Homekey interim housing facility to provide 88 units and comprehensive wrap-around supportive services for the unhoused community.
- Partnering with Palo Alto Unified School District (PAUSD) on the future of the Cubberley Community Center by finalizing an agreement to acquire seven acres and placing a bond measure on the November 2026 ballot, alongside funding for site stewardship, environmental review, and facility repairs.
- Preserving core community and library services by maintaining seven-day-a-week operations at Mitchell Park and Rinconada libraries, expanding youth mental health initiatives, teen and community programming at the Bryant Street Community Center, and advancing Phase 1 of the Nonprofit Partnership Workplan to fund vital community organizations.
- Modernizing infrastructure and climate resilience through major capital investments—including \$57.0 million dedicated to Electric Grid Modernization to support citywide electrification, alongside full deployment of Advanced Metering Infrastructure (AMI) and continued progress on the Regional Water Quality Control Plant Secondary Treatment Upgrade.
- Proactively managing long-term liabilities and pension costs by utilizing the Section 115 Pension Trust to reduce ongoing expenses, manage market volatility, and safeguard the City's fiscal resilience.

This Budget in Brief provides an overview of the City's approach to balancing the budget; outlines the major sources of funding for City services and infrastructure; and summarizes the operating and capital budgets.

For additional details, I invite you to review the full FY 2027 operating and capital budget documents, available on the City of Palo Alto website at paloalto.gov/budget. For comments regarding the budget or this document, please send an email to Budget@paloalto.gov.

Respectfully,



Ed Shikada, City Manager

CITY COUNCIL PRIORITIES

Though the City has many important goals, the following areas were determined to be the top four priorities for the City Council to address in Calendar Year 2026; examples of how the City is addressing these priorities are shown below and additional information about the 2026 City Council Priorities can be found on the City's website at: palocalto.gov/councilpriorities.

ACHIEVE NEAR-TERM PRIORITY HOUSING MILESTONES

- **Completed and opened the Palo Alto Homekey interim housing facility** delivering 88 units of high-quality modular housing along with comprehensive on-site supportive services for unhoused individuals. In parallel, the City continues close partnership with the Santa Clara County Housing Authority to advance the \$28 million infrastructure improvement project at the Buena Vista Mobile Home Park and ensure long-term affordability.
- **Executing key implementation programs under the state-mandated 2023-2031 Housing Element** including adopting zoning amendments to increase residential development potential along major commercial and transit corridors such as El Camino Real, establishing development impact fee exemptions for deed-restricted inclusionary affordable units, and updating local guidelines to accelerate affordable and mixed-use housing production.

CUBBERLEY ACQUISITION AND RENOVATION FUNDING

- **Executed an agreement with the Palo Alto Unified School District (PAUSD)** to purchase seven acres of the 35-acre Cubberley Community Center site, joining the City's existing eight acres and establishing a permanent municipal footprint. City Council authorized placing a tax measure on the November 2026 ballot to fund the land acquisition and initial facility redevelopment.
- **In May 2026, City Council adopted the Conceptual Master Plan and completed environmental review**, followed in June 2026 by advisory spending guidelines for redevelopment proceeds, while maintaining ongoing site repairs and collaborating with community partners.

ENHANCE BUSINESS VIBRANCY

- **Activating downtown retail and supporting commercial district recovery**, while fostering economic vitality and partnering with local businesses across the City's commercial districts.
- **Implemented enhanced sidewalk and garage pressure washing** throughout University Avenue, California Avenue, and the Downtown commercial core to maintain district cleanliness. Furthermore, the City is transitioning its parking enterprise funds toward long-term financial self-sufficiency, while replacing the Palo Alto Link pilot with a targeted \$100,000 voucher program to support local worker and visitor transit connectivity.

GOVERNMENT EFFICIENCY

- **Streamlined regulatory processes and administrative cost recovery** by updating policies and procedures, and optimizing use of technology, especially with the investment in the City's digital future by resourcing the first phase of our new SAP/HANA system, an essential move to modernize.

COMMUNITY ENGAGEMENT

Annual Budget Process

FALL:

- To prepare for next year's budget, the city calculates the cost for delivering the same services currently provided to the community with updated contractually obligated cost changes. The capital budget preparation process begins with department staff and appointed committees' meetings to review potential modification to the five-year capital plan.

WINTER:

- The City publishes the 10-year General Fund Long Range Financial Forecast (LRFF), which projects the revenues and expenditure based on available information and is discussed with the Finance Committee and the City Council during public meetings.
- Departments submit budget change requests to reduce or augment budgets for existing services, including targeted outcomes and performance measures associated with these requests.
- Internal budget discussions are being held with the City Manager to discuss department budget proposals and to prepare the City Manager's annual budget.

SPRING:

- The City Manager releases and presents the proposed operating and capital budgets along with the five-year capital improvement plan (CIP) and recommended adjustments to the Municipal Fee Schedule to the City Council.
- The Finance Committee conducts a series of public hearings and recommends the proposed budgets with or without amendments to the City Council. The public provides input to the budget as part of the Finance Committee hearings and City Council deliberations.

SUMMER:

- Final adoption by the City Council occurs at a public hearing in June. The city publishes the Adopted Budget documents and Municipal Fee Schedule.



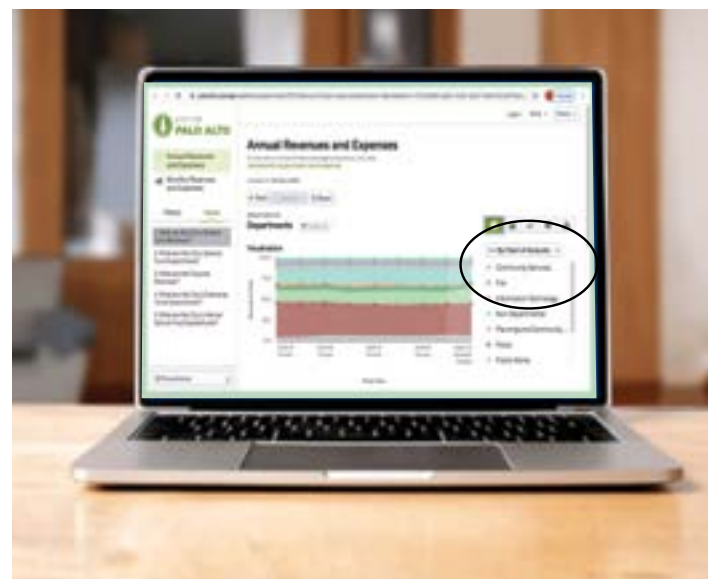
Open Budget

To facilitate understanding and transparency of the budget document, the City provides budget information through OpenGov, an online tool that provides users with different views of the City's budget data by fund, department, revenues, and expenditures. The tool can be accessed by visiting www.paloalto.opengov.com.

Governmental budgets are composed of funds, departments, and accounts. Using filters, you can choose the combination you want to explore. The city has also saved a few common views available for selection for ease of reference.



By clicking on one of these icons, you can choose whether you want to display graphs showing changes over the years, a pie chart for a single year, or download portions into Excel.



CITYWIDE REVENUES

Major revenue elements of the citywide sources are described below.

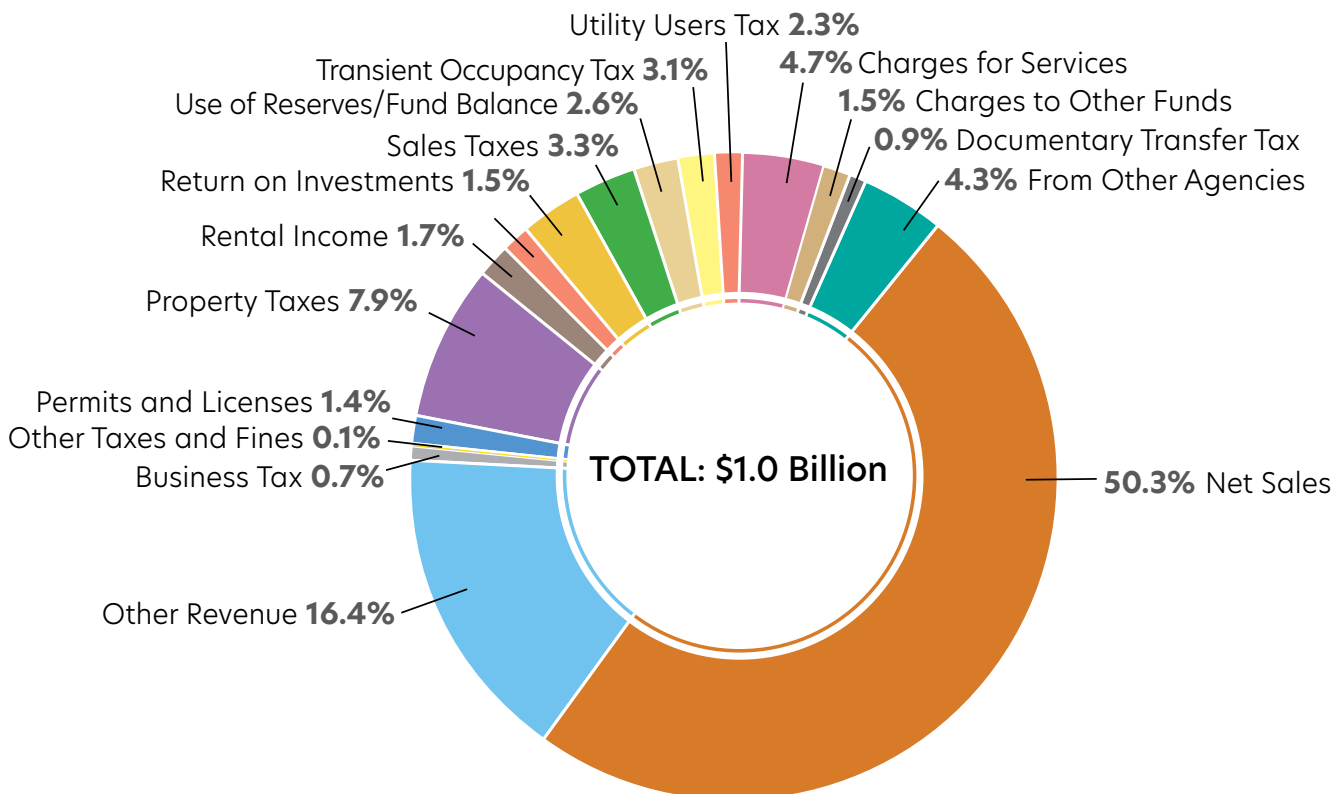
Net Sales – The City of Palo Alto offers a full suite of utilities (including electric, gas, water, and wastewater) as well as refuse and stormwater management. The provision of these services is done on a cost-recovery rate payer basis, and the revenues generated by these activities are referred to as “Net Sales.” This is the largest source of funds citywide, accounting for 50.3% of total sources. More information on the City’s utilities can be found in the Enterprise Funds Budget Section of this document.

Tax Revenue – Tax revenue makes up approximately 17% of total citywide sources (approximately 55.6% of General Fund revenue) and are mainly in the General Fund. Tax Revenue includes property taxes, transient occupancy tax, sales tax, documentary transfer tax, utility user’s tax, and business tax. More information on these tax revenue sources can be found in the General Fund section of this document.

Other Revenue – Other sources of funding in the FY 2027 budget include charges for services such as for the provision of recreation classes and programs, plan check fees, permits and licenses, and funding from other agencies. Funding the City receives from Stanford for the provision of fire services and public safety communications (totaling \$12.6 million) is included under Charges for Services.

Use of Reserves/Fund Balance – Use of reserves (or fund balance) is approximately 2.6% of total sources reflects the planned usage of accumulated funds within Council-approved levels. Typically, the result of funds carried forward from a prior year or for rate stabilization purposes in Enterprise or Capital Improvement Funds as seen in the following Citywide Expenses section.

Citywide Revenues by Category



All numbers indicated above are in \$ millions.

CITYWIDE EXPENSES

Major citywide expenses by fund type are described below.

Enterprise Funds – These funds are the largest source of expenses for the City and support the purchase and delivery of electricity, gas, and water to the community and collect and treat refuse and wastewater. They also support the operation and maintenance of the City's airport and fiber optic network. These services are typically funded by the Net Sales and Use of Reserves revenue categories. More information can be found in the Enterprise Fund section of this document.

General Fund – The General Fund comprises approximately 25.9% of the total Citywide expense budget and includes funding for general City services:

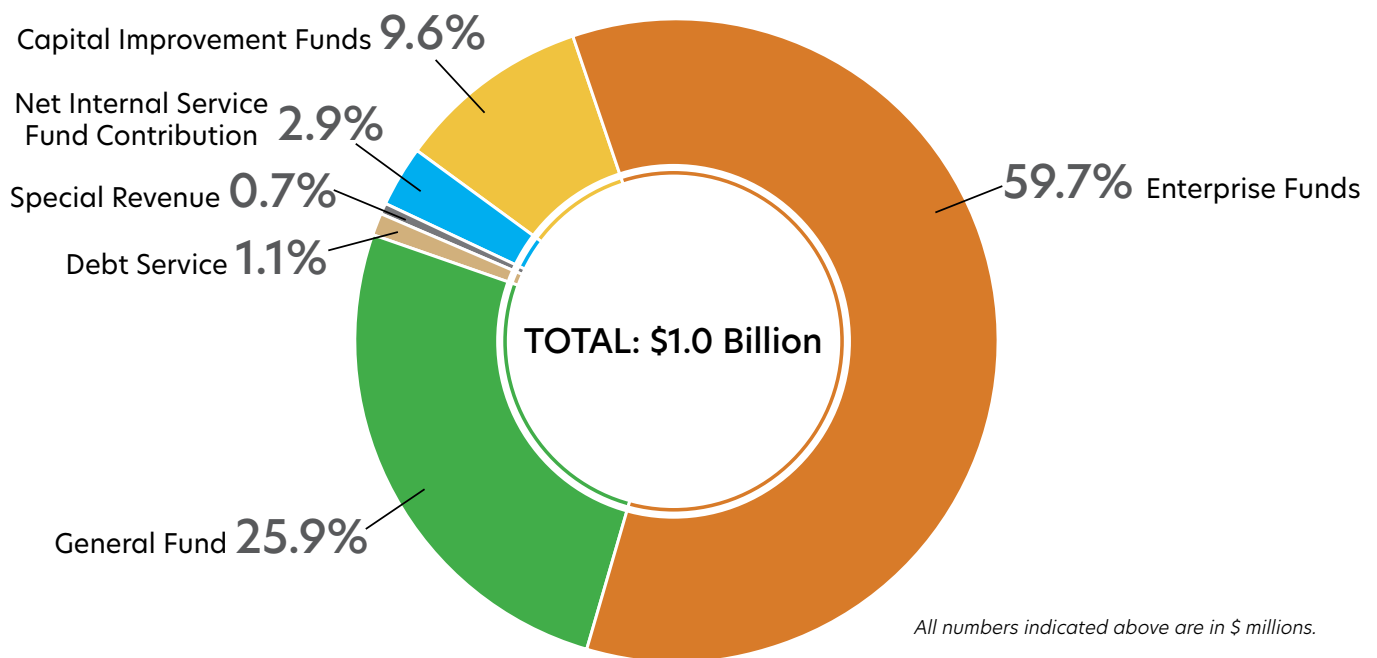
- Public Safety
- Community Services and Library
- Citywide Internal Support and Administration
- Planning, Transportation, and Infrastructure

More detailed information on the expenses in these areas can be found in the General Fund Expenses section of this document.

Capital Improvements – In FY 2027, Capital Improvement Funds will support repairs and replacements of, and improvements to, the City's roads and sidewalks, traffic and transportation systems, parks and open space, public safety technologies, and most City facilities. It will continue work on the 2014 Council-approved Infrastructure Plan. More information can be found in the Capital Budget section of this document.

Other Funds – Other funds include Internal Service Funds, such as information technology and vehicle replacement and maintenance, Debt Service Funds, and Special Revenue Funds such as development impact fee funds, parking funds and housing funds. More information on these funds can be found in the FY 2027 Operating Budget document.

Citywide Expenses by Fund Type



GENERAL FUND REVENUES

WHERE DO YOUR TAX DOLLARS AND FEE PAYMENTS GO? The City's General Fund revenue portfolio is quite diversified. Approximately 55.6% of all annual revenues are from taxes such as Property Tax, Sales Tax, Documentary Transfer tax, Utility User tax, Transient Occupancy Tax, and Business Tax. The remaining revenue sources include fees and charges from residents and businesses, charges to other funds for services provided, rental income, and reserves.

\$76.1

PROPERTY TAX. Residential land use comprises 70.7% of taxable value. For every \$1,000 in property taxes paid by property owners, the City receives \$94. The majority, or 45.6%, of property taxes support local schools.

\$45.8

CHARGES FOR SERVICES. Services include fire and communications services provided to Stanford, paramedic services, golf-related fees, arts and science classes, and plan check fees.

\$33.4

SALES TAX. For every \$100 in purchases, residents, businesses, and visitors pay \$9.75 in sales tax. The City receives approximately \$1 of this amount in base sales tax plus \$0.50 in public safety sales tax for a total of \$1.50. The majority or 5.5% goes to the state to fund statewide activities (e.g. transportation, health and social service programs, etc.).

\$32.0

TRANSIENT OCCUPANCY TAX. Visitors staying at local hotels pay a 15.5% tax applied to the room rate.

\$28.7

EQUITY TRANSFER. Annual payments from the Electric and Gas Fund for the General Fund's initial investment in the utilities.

\$23.0

UTILITY USERS TAX. Residents and businesses pay a Utility Users Tax of 5% for electricity, gas, and water and 4.75% for telephone services.

\$16.1

RENTAL INCOME. Rent from other City funds using space maintained by the General Fund and outside vendors leasing space at City properties.

\$14.7

SERVICES PROVIDED TO OTHER FUNDS. Charges from internal support departments such as Administrative Services, Human Resources to other funds like enterprise and internal service funds for services provided.

\$12.5

PERMITS & LICENSES. Payments to the City for issuing building permits, fire permits, and miscellaneous health and safety-related licenses.

\$9.0

DOCUMENTARY TRANSFER TAX. This tax is applied when a property is sold, and the current rate is \$3.30 per thousand dollars of sale value.

\$8.3

REVENUES FROM OTHER AGENCIES & OTHER MISCELLANEOUS REVENUE. Includes grants and revenue collected from external government agencies and transfers from other funds.

\$6.9

BUSINESS TAX. General tax on businesses operating in the City of Palo Alto, with funding to be split between three critical service areas: public safety, affordable housing and homeless services, and transportation and grade separation projects.

\$4.7

INVESTMENT EARNINGS. Reflects the interest earnings on the City's investment portfolio.

\$0.8

OTHER TAXES & FINES. This category includes parking violations, traffic violations, and administrative citations.

TOTAL: \$312.0 MILLION

All numbers above indicated are in millions.

GENERAL FUND EXPENSES

The General Fund pays for various City services such as police, fire, libraries, parks and recreation, and internal support functions such as administrative, finance, human resources, and legal services.

PLANNING AND TRANSPORTATION = \$28.3

EXPENSE

Building, Plan Check, and Permit Issuance	\$15.5
Planning and Transportation	\$12.8

NEIGHBORHOOD, COMMUNITY AND LIBRARY SERVICES = \$56.6

EXPENSE

Five Library Branches	\$12.7
Parks, Fields, Open Space, & CSD services	\$16.8
Recreation programs	\$8.3
Arts & Science programs	\$11.3
Municipal Golf Course	\$4.0
Support for Non-Profits	\$1.0
Animal Services	\$2.4
Project Safety Net	\$0.1

INFRASTRUCTURE AND ENVIRONMENT = \$64.7

EXPENSE

Streets, Sidewalks, and Trees	\$13.6
Public Works and Engineering	\$3.4
Facility Repair and Maintenance	\$11.8
Capital Investments	\$35.5
Sustainability	\$0.4

\$312.0 Million

ADMINISTRATIVE AND GOVERNMENT = \$37.5

EXPENSE

Council Appointed Officials and City Council	\$13.2
Finance	\$11.5
Human Resources	\$5.1
Non-Departmental*	\$7.7

PUBLIC SAFETY = \$124.9

EXPENSE

Police	\$62.2
Fire and Emergency Service	\$62.7

**Includes expenses such as transfers to Capital funds, contingency accounts for various appointees, Cubberley Community Center, and streetlights.*

All numbers indicated above are in \$ millions.

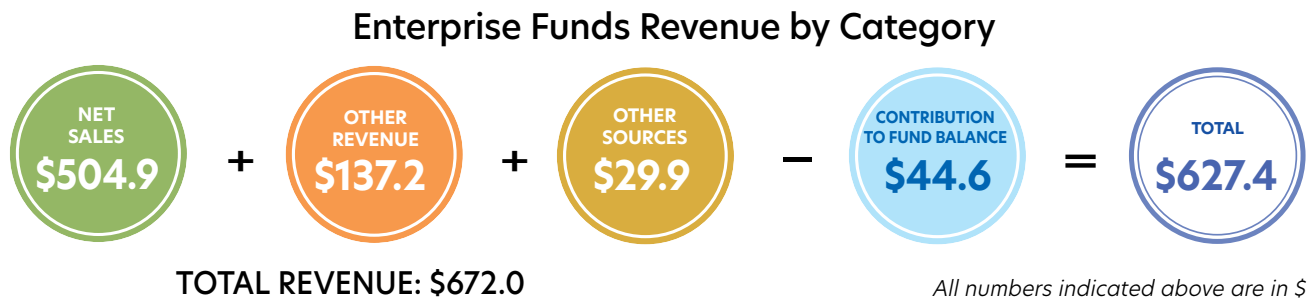
ENTERPRISE FUNDS BUDGET

The City of Palo Alto delivers electricity, gas, and water to its residents and customers; collects and treats wastewater; collects and properly disposes garbage and recyclable materials; and maintains the City's stormwater system. Revenues and expenses associated with these services are discussed in this section.

The city also provides commercial dark fiber optic services and operates and maintains the Palo Alto

Airport. More information about the revenues and expenses for those activities can be found in the [FY 2027 Adopted Operating Budget Book](#).

The FY 2027 Adopted Budget anticipates \$627.4 million in commodities, infrastructure, and operations costs to deliver rate payer and regional services. These costs are funded by the sources detailed below.



Revenues

Net Sales Net Sales of \$504.9 million account for the sale of commodities and services to ratepayers. This includes residential (26%) and commercial (56%) ratepayers, wastewater treatment partner agencies (5%), miscellaneous services (7%) and the City's cost as a ratepayer (6%) for these services. Rate adjustments for electric, gas, stormwater, wastewater collection, and water charges are included in the FY 2027 Adopted Budget. The median monthly residential utility bill is expected to increase by 8.0% from \$441.53 to \$476.74.

Fund Balance and Reserves

Enterprise Funds collectively are expected to increase fund balance and reserves by \$44.6 million in FY 2027. This net increase reflects two offsetting changes: Utilities are projected to contribute \$47.9 million to fund balance, while Public Works is expected to use \$3.3 million of existing fund balance to offset current-year expenses.

For Enterprise Funds, fund balance and reserves help manage the timing difference between when revenues

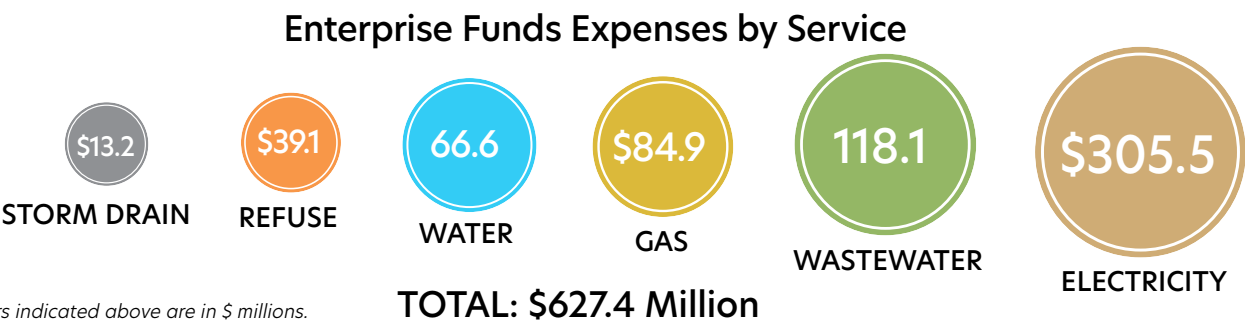
are received and when costs are incurred. The Utilities contribution supports reserve requirements, adequate working capital, and a robust capital improvement program. Because major infrastructure investments are planned and delivered over multiple years, resources may accumulate in fund balance until the related projects or other planned expenditures occur. Accordingly, the \$44.6 million increase primarily reflects the timing of planned spending and the maintenance of appropriate reserve and working-capital levels.

Other Revenue totals \$137.2 million, with the single largest component being the first tranche of debt financing for the electric grid modernization project in the amount of \$80.0 million. The total estimated cost of the grid modernization project is approximately \$300 - \$350 million. This category also includes connection fees for new customers (\$4.4 million).

Other Sources total \$29.9 million which include revenue from other agencies (\$17.6 million), interest earnings (\$6.9 million), and transfers from other City funds (\$4.1 million).

Expenses

The majority of expenses are related to purchasing commodities such as electricity, gas, and water from third-party providers, maintaining the capital infrastructure to distribute the commodities, and administering operation of the utilities.



CAPITAL BUDGET

Enterprise Funds are associated with a broad range of municipal services and account for \$198.1 million of the FY 2027 capital budget.

Internal Service Funds account for \$11.3 million of the FY 2027 capital budget and fund replacement and maintenance of the City's vehicles and technology.

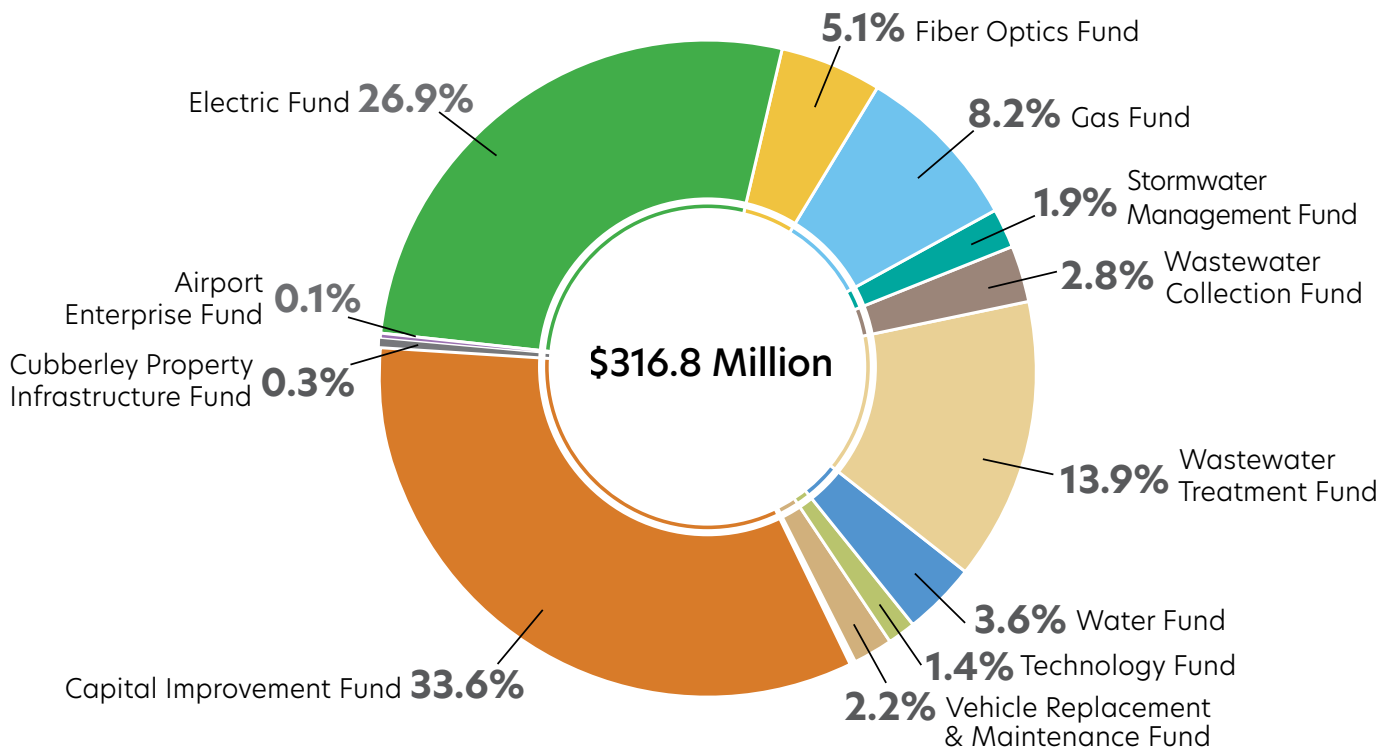
The **Cubberley Property Infrastructure Fund** was established in 2015 to repair, renovate, and improve facilities at the Cubberley Community Center with \$0.9 million funded in FY 2027.

The **Capital Improvement Fund** is supported by the General Fund as well as grants and reimbursements from other agencies, impact fees, and transfers from other funds, and accounts for \$106.5 million of the FY 2027 capital budget. This fund is used to repair,

replace, and improve the City's roads, transportation systems, and public safety technologies, refurbish and upgrade parks and open space, and build and maintain City facilities that are not funded through enterprise or internal service fund activities.

The **Infrastructure Plan (IP)** is a subset of ten high priority projects in the Capital Improvement Fund approved by the City Council in 2014. The IP consists of a new public safety building, two parking garages, downtown automated parking guidance systems, a bicycle and pedestrian transportation plan, rehabilitation of two fire stations, Charleston/ Arastradero corridor improvements, completion of Byxbee Park, and a Highway 101 pedestrian/bicycle overpass bridge. For descriptions of these projects and their progress, please see the City's Infrastructure Plan website at www.infrastructure.cityofpaloalto.org.

FY 2026 Capital Budget Expenditures by Fund



All numbers indicated above are in \$ millions.



CITY COUNCIL

Vicki Veenker, Mayor
Greer Stone, Vice Mayor
Patrick Burt, Council Member
Ed Lauing, Council Member

George Lu, Council Member
Julie Lythcott-Haims, Council Member
Keith Reckdahl, Council Member

CITY MANAGER

Edward Shikada

City Hall:

250 Hamilton Avenue, Palo Alto, CA 94301

General City Information:

(650) 329-2100

Visit our website at:

www.PaloAlto.gov

Contact the City Council:

City.Council@PaloAlto.gov

Contact the City Manager:

CityMgr@PaloAlto.gov

Americans With Disabilities Act Statement:

In compliance with Americans with Disabilities Act (ADA) of 1990, this document may be provided in other accessible formats.

ADA Contact:

George Hoyt
Chief Building Official/ADA Coordinator
City of Palo Alto, 285 Hamilton Avenue
Suite 100, Palo Alto, CA 94301,
(650) 329-2550 • ADA@palocalto.gov

