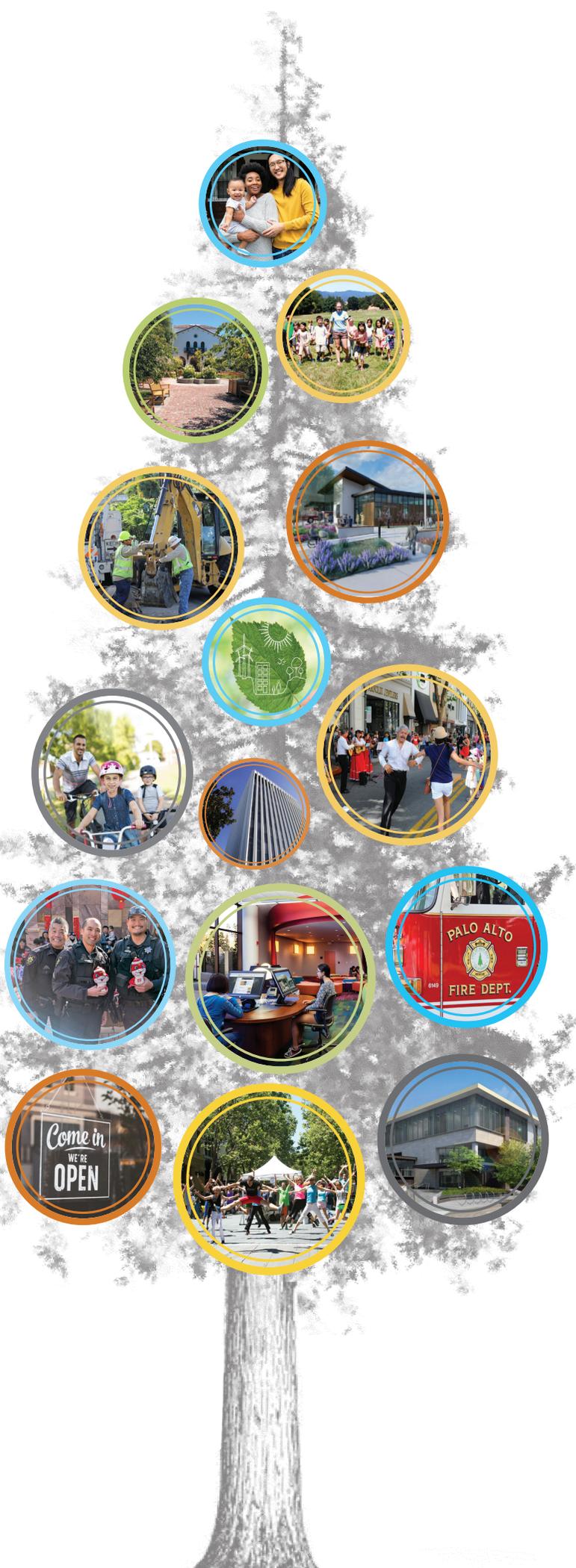




CITY OF
**PALO
ALTO**

BUDGET IN BRIEF

FISCAL YEAR 2026



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. 67,231

AREA:

25.85 square miles

CREDIT RATING:

AAA, highest possible credit rating

INFRASTRUCTURE AND UTILITIES:

Streets: 471 miles

Water Mains: 231.17 miles

Water Delivered to Customers: 8.6 million gallons per day

Wastewater Mains: 207 miles

Wastewater Treated: 7 million gallons per day

Gas Mains: 211 miles

Overhead Electrical Lines: 209 miles

Underground Electrical Lines: 283 miles

Fiber Optic Backbone: 56.3 miles

PRINCIPAL EMPLOYERS:

- Broadcom Inc/VMware Inc
- Stanford
- Hewlett-Packard Company
- Veteran's Affairs Palo Alto Healthcare System
- Varian Medical Systems
- Tesla Corporate Offices
- Cooley
- Palantir Technologies Inc
- Wilson Sonsini Goodrich & Rosati
- Rubrik Inc HQ

PARKS, RECREATION, & COMMUNITY CENTERS:

Parks, Preserves, and Open Space: 4,374 acres

Parks: 32

Dog Parks: 4

Playgrounds: 30

Community Centers and Museums: 5

Gymnasiums and Fitness Rooms: 6

Walking/Biking Trails: 41 miles

PUBLIC SAFETY:

Police Calls for Service: 39,559

Fire/Ambulance Calls for Service: 9,410

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: 1,088,580

Books: 250,822

eBooks and eMusic: 251,581

Audio Visual Materials: 34,959



DEAR PALO ALTANS

I am pleased to present this summary of our City's Fiscal Year (FY) 2026 Budget, adopted by the City Council on June 16, 2025. This \$1.0 billion balanced budget will be in effect from July 1, 2025, through June 30, 2026. The budget represents a continuation of investments made by the City Council to restore services cut in 2020 due to the pandemic by reinvesting in community needs such as public safety, affordable housing and unhoused services, and libraries, while reflecting the need to manage spending carefully and prepare for range of economic conditions.

The budget balances continued positive momentum against unknowns that could impact the City's fiscal health such as economic uncertainty, tariffs, inflation, supply chain interruptions, and Federal spending reductions, requiring that the city strategically prepare to adapt as needed. A conservative approach to ongoing costs is needed to ensure that current one-time surpluses are managed in a way that will not exacerbate future deficits and allow flexibility to pivot, as needed. With this approach in mind, the budget limits ongoing spending, sets aside reserves, fully funds anticipated legal liabilities, and maintains proactive investment in long-term liabilities. Staff remains cautious and recommends a status quo budget and service level.

The four annual City Council Priorities are: 1. Economic development and retail vibrancy, 2. Climate action and adaptation and natural environment protection, 3. Implementing housing strategies for social and economic balance, 4. Public safety, wellness and belonging.

Highlights of this year's budget include:

- Continuing to invest in staffing resources that support City services. Overall, actions in this budget increased full-time staffing levels from 1,092.10 FTE (602.57 FTE in the General Fund) to 1,110.35 FTE (613.97 in the General Fund). This 18.25 FTE or 1.6% increase enhances public safety and utility services while balancing financial stability.
- Creating a Single Role Emergency Medical Services Division to serve as a 12-hour peak ambulance and upstaffing Fire Engine 64 at Fire Station #4 through cross staffing and addition of three fire captain positions, bringing firefighting capacity from five stations to six, and allocating resources to improve response times.
- Continuing enhanced University Avenue and California Avenue pressure washing and cleaning services.
- Reserving funds for Cubberley Community Center planning efforts.
- Adding resources to support the Non-Profit Workplan Phase 1, public art programs, children and teen programs, therapeutic recreation resources, and summer camps.
- Investing in Development Center staffing to support economic recovery efforts and implementing housing strategies for social and economic balance and on-call resources to support Council priorities.
- Proactive funding for long-term liabilities (pension and retiree medical) at a more conservative calculation than the normal cost in alignment with revised Retirement Benefit Policy.

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 detail, I invite you to review the full FY 2026 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 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 2025; examples of how the City is addressing these priorities are shown below and additional information about the 2025 City Council Priorities can be found on the City's website at: palocalto.gov/councilpriorities.

ECONOMIC DEVELOPMENT & RETAIL VIBRANCY

- Resumed work on a new parking structure in the Downtown core (Lot D) on a city surface for 274 space-parking garage, featuring six levels of above-ground parking lot to help attract visitors downtown. Also, a reserved area to allow future construction for potential affordable housing development on the Lytton/Kipling Lot T at 450 Lytton Avenue, or elsewhere, with parking for residents and the public.
- City Council approved an amendment to the Downtown and Cal Avenue steam cleaning contract on December 1, 2025, implementing the increased sidewalk and garage pressure washing approved through the budget process. Staff are actively monitoring the Downtown area to assess cleanliness following the cessation of services by Downtown Streets Team.

CLIMATE ACTION ADAPTATION AND NATURAL ENVIRONMENT PROTECTION

- Council approved Phase 2 of the Advanced Whole Home Electrification Pilot Program and began implementation, providing direct installation of space heating to complement existing turnkey services for direct installation of water heating.
- The 2025 Bicycle and Pedestrian Transportation Plan (BPTP) adopted by Council represents a system of interconnected bicycle and pedestrian corridors. The 2025 BPTP Update is an update to the 2012 BPTP, adjusting the bicycle network to reflect land use changes, roadway designs to improve comfort and safety, and policies that support active transportation and climate action plan goals.

IMPLEMENTING HOUSING STRATEGIES FOR SOCIAL & ECONOMIC BALANCE

- The City is working with the Santa Clara County Housing Authority to determine next steps to maintain affordability and improve conditions at Buena Vista Mobile Park. Housing Authority is advancing the \$28 million infrastructure improvements at Buena Vista. Plans are in place to provide 90-day temporary relocation notices to residents in December.
- City Council adopted an ordinance to increase housing development potential along El Camino Real and consideration of an exemption from payment of development impact fees for inclusionary units under certain circumstances, consistent with Housing Element Program 3.4 E.

PUBLIC SAFETY, WELLNESS & BELONGING

- The project to Develop Master Plan for Cubberly Site kicked off in February 2025. Currently the City owns eight acres and plans to purchase an additional seven acres from PAUSD pending a successful bond measure in November 2026. Master planning will be in cooperation with The Friends of the Palo Alto Recreation Wellness Center, whose objective is to create space for a 3-court gymnasium and wellness center in the first phase of construction.
- Community Services Department staff collaborated with the County of Santa Clara's Q Corner and Alcove to facilitate Wednesday afternoon Gen Z hangouts, providing a safe and supportive environment for teens through October. Council approved new agreements with Project Safety Net and The Jed Foundation to enhance youth mental health and suicide prevention initiatives. Project Safety Net, Stanford, and the City organized two community mental health gatherings to share resources and offer spaces for healing. The Jed Foundation commenced its work with a site visit and multiple sessions involving community partners.

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 committee meetings to review potential modification to the five-year capital plan.

WINTER:

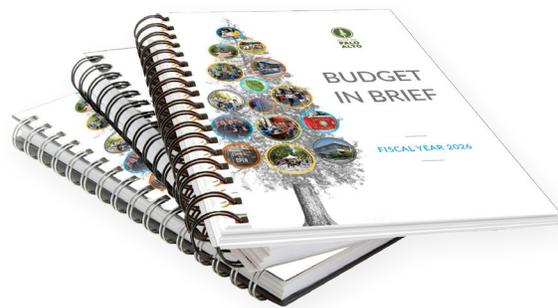
- The City publishes the 10-year General Fund Long Range Financial Forecast (LRFF), which projects the revenues and expenditure based on available information and is discussed with the Finance Committee and the City Council during public meetings.
- Departments submit budget change requests to reduce 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 recommended 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.



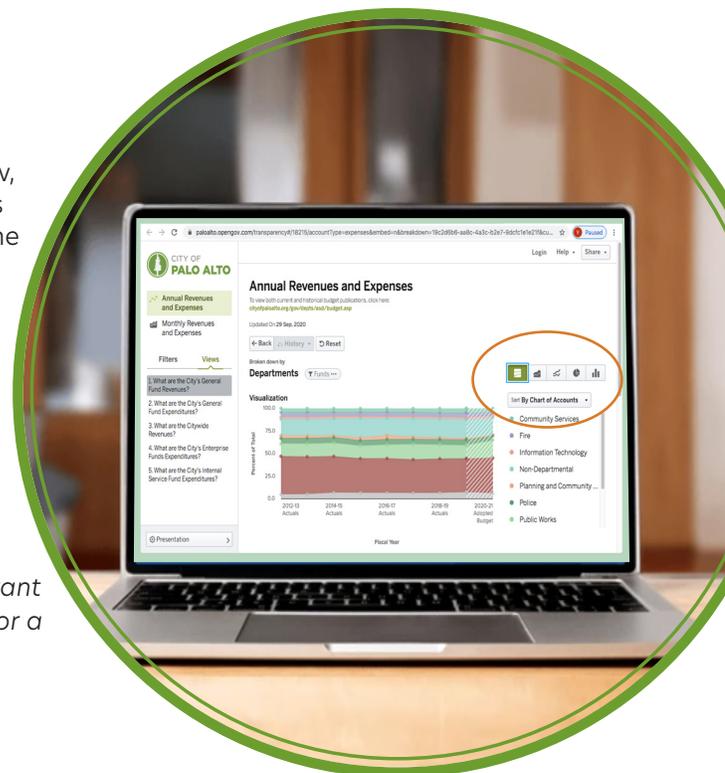
Open Budget

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.

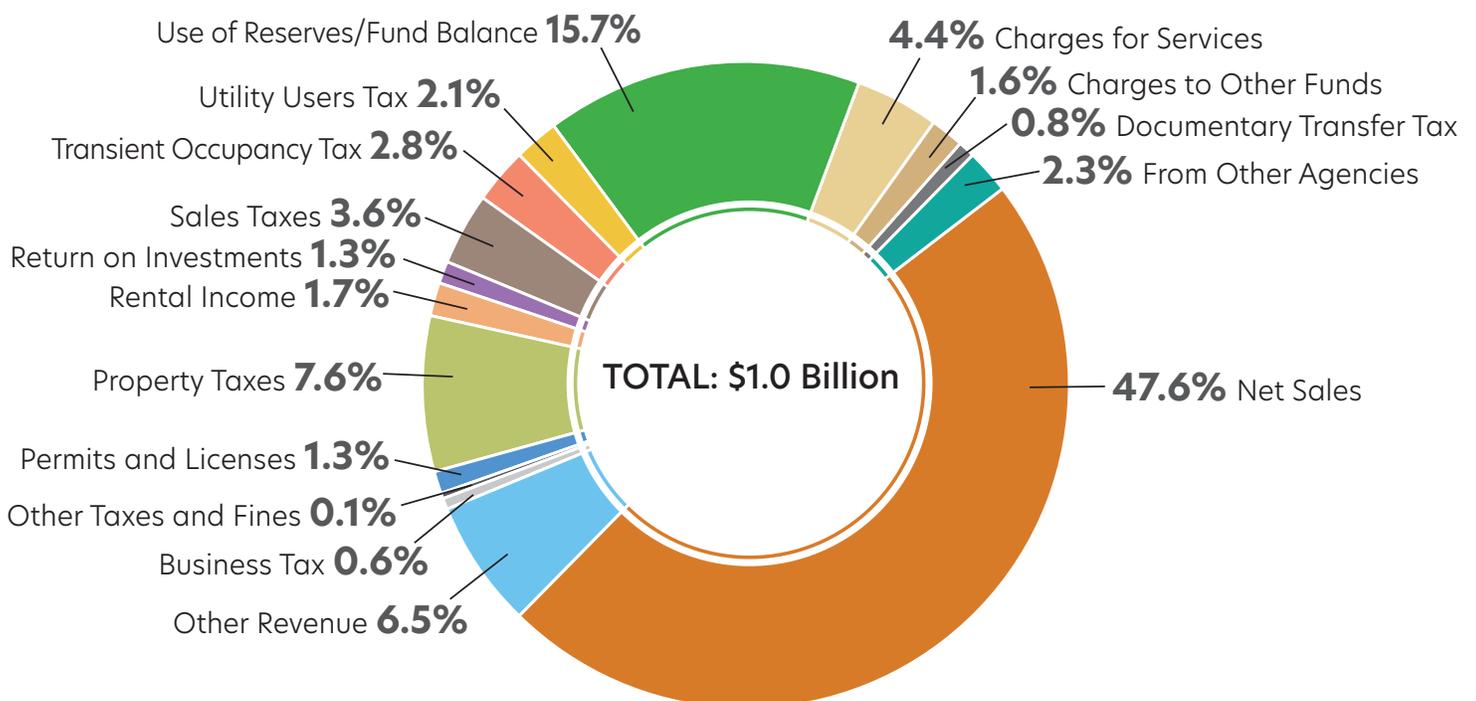
Net Sales – The City of Palo Alto offers a full suite of utilities (including electric, gas, water, and wastewater) as well as refuse and stormwater management. The provision of these services is done on a cost-recovery rate payer basis, and the revenues generated by these activities are referred to as “Net Sales.” This is the largest source of funds citywide, accounting for 48.7% 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 18% of total citywide sources (approximately 58% 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 2026 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 \$11.9 million) is included under Charges for Services.

Use of Reserves/Fund Balance – Use of reserves (or fund balance) is approximately 13.7% 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 26.7% of the total Citywide expense budget and includes funding for general City services:

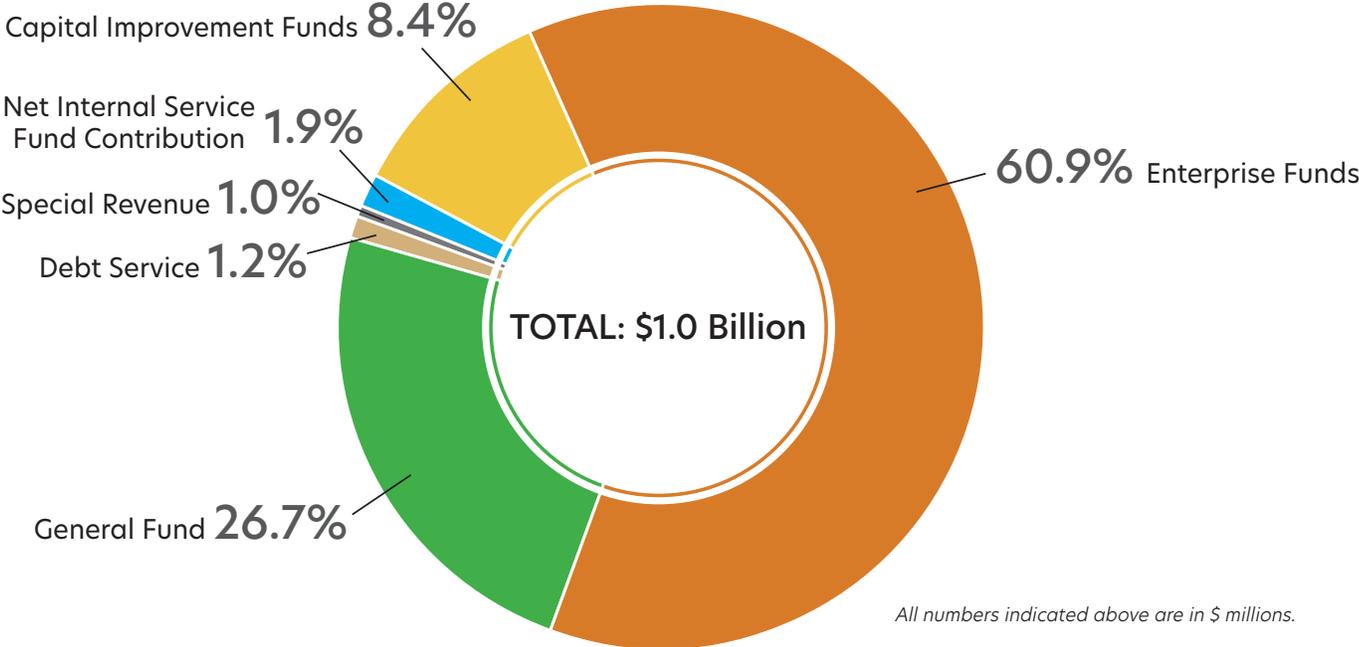
- Public Safety
- Community Services and Library
- Citywide Internal Support and Administration
- Planning, Transportation, and Infrastructure

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 2026, 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.

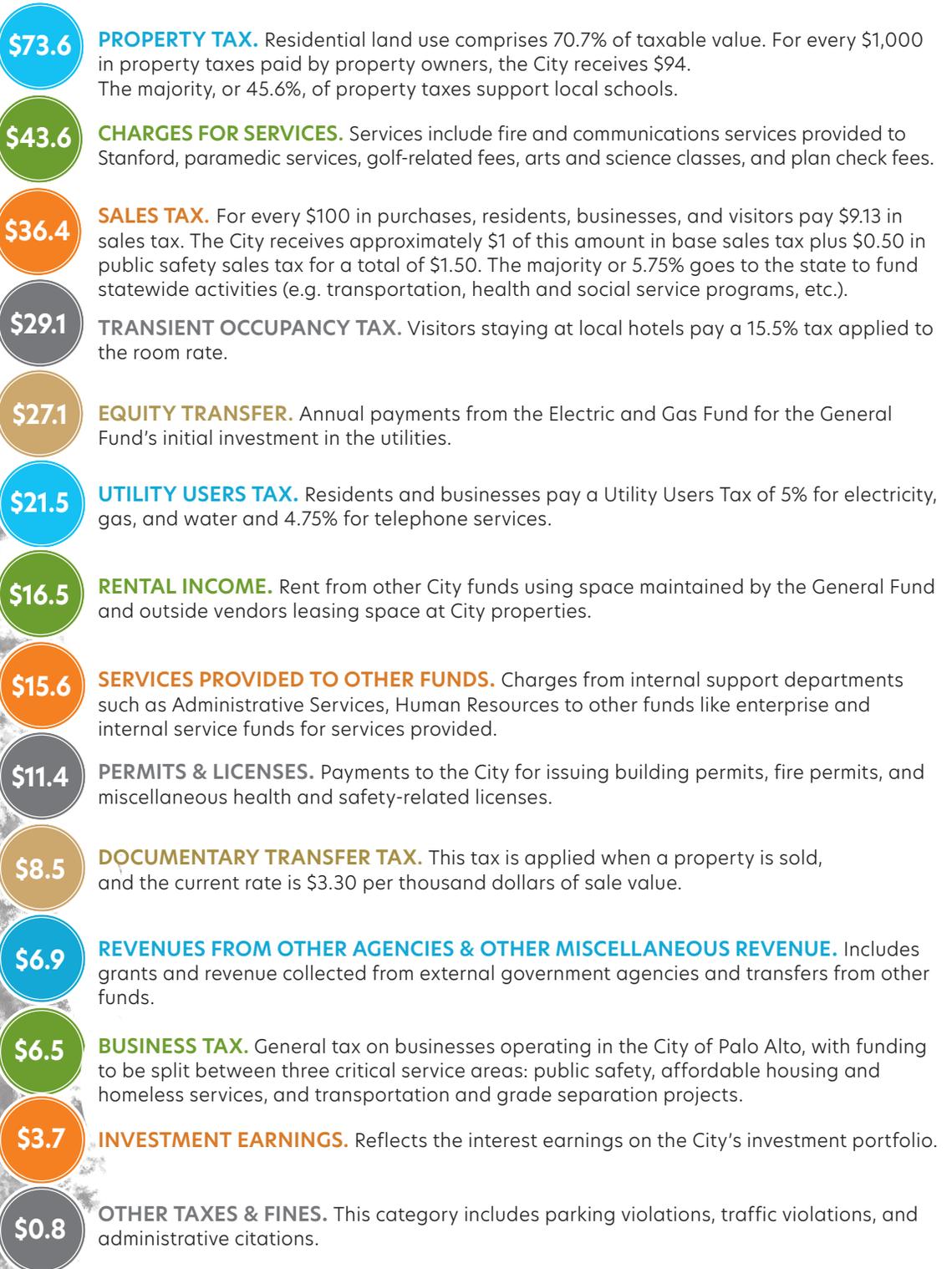
Other Funds - Other funds include Internal Service Funds, such as information technology and vehicle replacement and maintenance, Debt Service Funds, and Special Revenue Funds such as development impact fee funds, parking funds and housing funds. More information on these funds can be found in the FY 2026 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 58% 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.

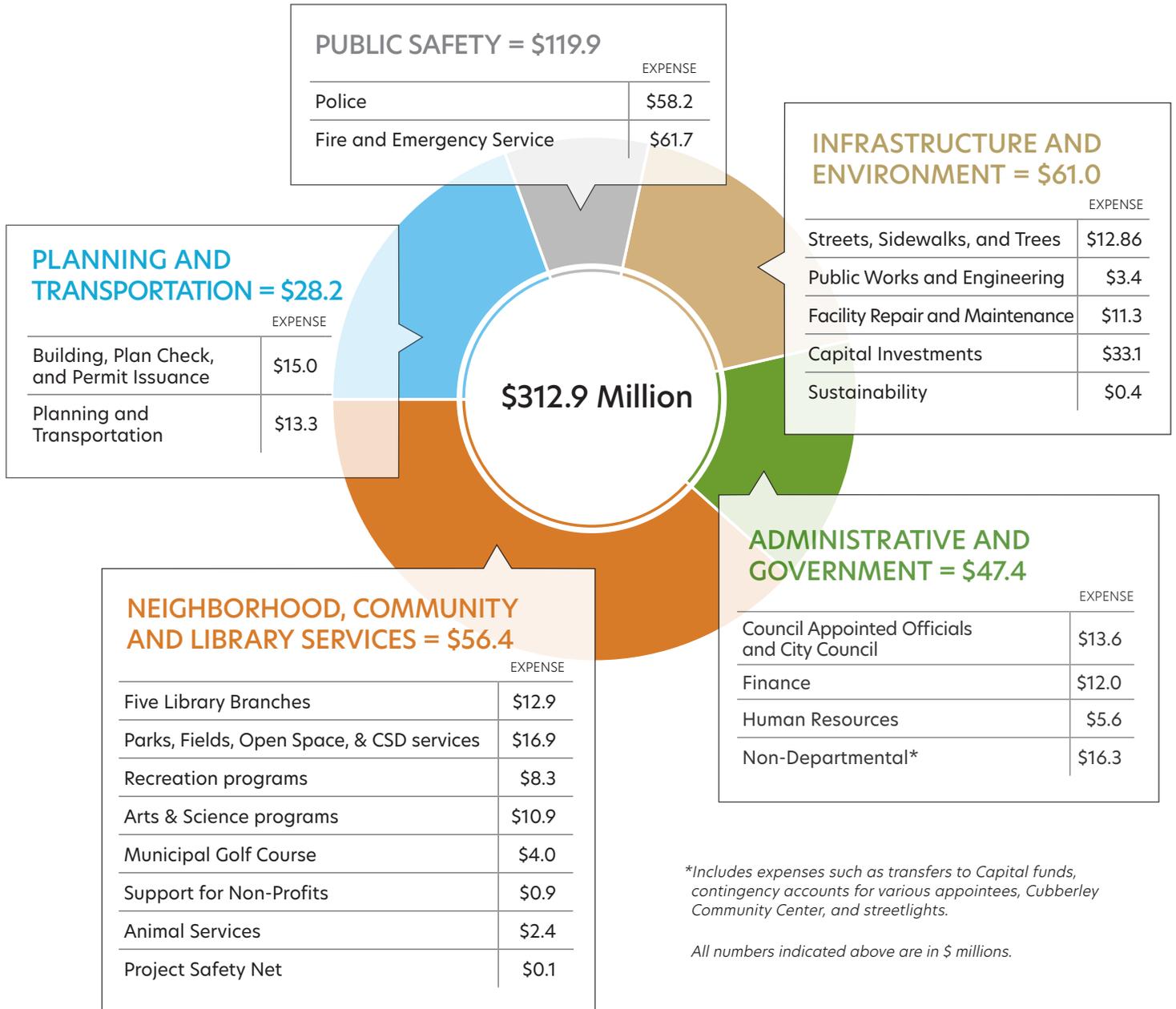


TOTAL: \$301.2 MILLION

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.



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 2026 Adopted Operating Budget Book.

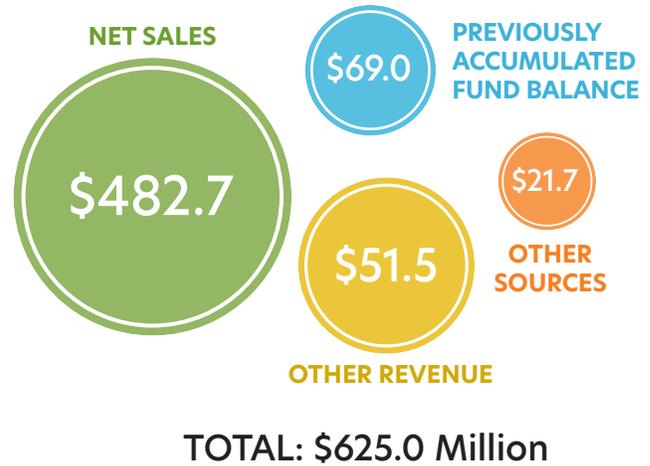
The FY 2026 Adopted Budget anticipates \$625.0 million in commodities, infrastructure, and operations costs to deliver rate payer and regional services. These costs are funded by the sources detailed below.

Revenues

Net Sales of \$482.7 million account for the sale of commodities and services to ratepayers. This includes residential (25%) and commercial (53%) ratepayers, wastewater treatment partner agencies (6%), miscellaneous services (11%) and the City's cost as a ratepayer (5%) for these services. Rate adjustments for electric, gas, stormwater, wastewater collection, and water charges are included in the FY 2026 Adopted Budget. The median monthly residential utility bill is expected to increase by 8.2% from \$403.74 to \$436.90.

Fund Balance and Reserves are used as a tool to address timing issues in the flow of revenues and expenses in Enterprise Funds reflecting usage of reserves for rate stabilization, previously accumulated balances carried forward from one fiscal year to

Enterprise Funds Revenue by Category



another due to the timing of infrastructure investment. FY 2026's use of previously accumulated reserves is \$69.0 million, including realignments of Capital Projects across the five-year Capital Improvement Program.

Other Revenue totals \$51.5 million, with the single largest component being the first tranche of debt financing for the electric grid modernization project in the amount of \$38.5 million. The total estimated cost of the grid modernization project is approximately \$300 - \$350 million. This category also includes connection fees for new customers (\$3.4 million).

Other Sources total \$21.9 million and include revenue from other agencies (\$9.8 million), interest earnings (\$5.9 million), and transfers from other City funds (\$5.1 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.

Enterprise Funds Expenses by Service



All numbers indicated above are in \$ millions.

CAPITAL BUDGET

Enterprise Funds are associated with a broad range of municipal services and account for \$203.7 million of the FY 2026 capital budget.

Internal Service Funds account for \$15.7 million of the FY2026 capital budget and fund replacement and maintenance of the City's vehicles and technology.

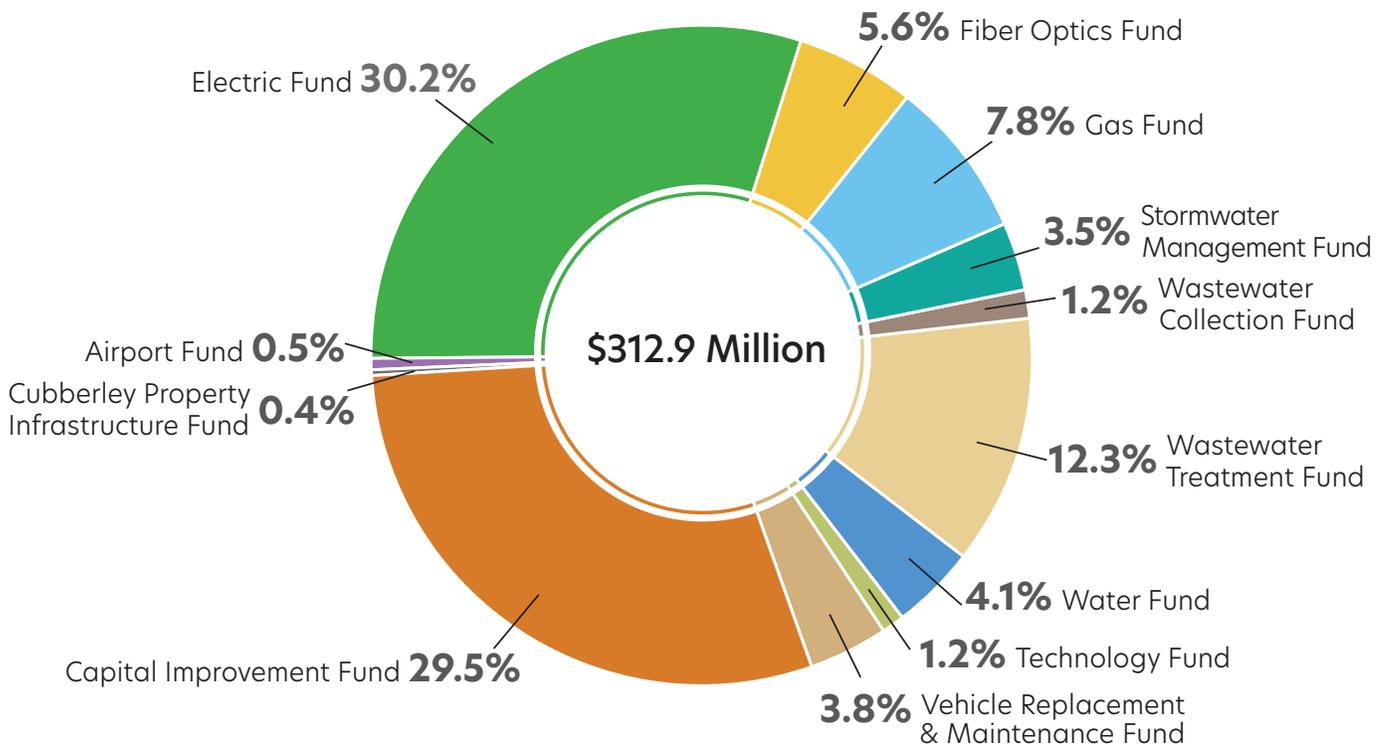
The **Cubberley Property Infrastructure Fund** was established in 2015 to repair, renovate, and improve facilities at the Cubberley Community Center with \$1.3 million funded in FY 2026.

The **Capital Improvement Fund** is supported by the General Fund as well as grants and reimbursements from other agencies and accounts for \$92.2 million of the FY 2026 capital budget. This fund is used to repair the City's

roads, 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 Bixbee 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





CITY OF
**PALO
ALTO**

City Council

Ed Lauing, Mayor

Vicki Veenker, Vice Mayor

Patrick Burt, Council Member

Keith Rechdahl, Council Member

Greer Stone, Council Member

Julie Lythcott-Haims, Council Member

George Lu, Council Member

Edward Shikada, City Manager



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

