

City of Palo Alto, California
Fiscal Year Ended June 30, 2025

ANNUAL COMPREHENSIVE FINANCIAL REPORT

- ▷ **CLIMATE CHANGE** AND THE NATURAL ENVIRONMENT: PROTECTION & ADAPTATION
- ▷ **COMMUNITY HEALTH**, SAFETY, WELLNESS & BELONGING
- ▷ **HOUSING** FOR SOCIAL AND ECONOMIC BALANCE
- ▷ **ECONOMIC** DEVELOPMENT & TRANSITION





Fiscal Year 2025 Annual Comprehensive Financial Report

City Council

Ed Lauing, Mayor

Vicki Veenker, Vice Mayor

Patrick Burt, Finance Committee Chair

George Lu

Julie Lythcott-Haims

Keith Reckdahl

Greer Stone

Ed Shikada, City Manager

Lauren Lai, Director of Administrative Services/Chief Financial Officer

Prepared by: Administrative Services Department

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For the Year Ended June 30, 2025

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OFFICE OF THE CITY MANAGER

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October 31, 2025

The Honorable City Council
City of Palo Alto, California

Transmittal of the Annual Comprehensive Financial Report for
Fiscal Year Ended June 30, 2025

Members of the Council and Citizens of Palo Alto:

We are pleased to present the Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2025, in accordance with Article III, Section 16 and Article IV, Section 13 of the City of Palo Alto Charter. The format and content of this ACFR complies with the principles and standards of accounting and financial reporting adopted by the Governmental Accounting Standards Board (GASB), and contains all information needed for readers to gain a reasonable understanding of the City of Palo Alto (City) financial affairs. Management takes sole responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. The objective of internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The City's financial statements have been audited by Macias Gini & O'Connell LLP, Certified Public Accountants (MGO). The goal of the audit is to obtain reasonable assurance that the financial statements are free of material misstatements and are fairly presented in accordance with U.S. generally accepted accounting principles in the United States of America (U.S. GAAP). MGO has issued unmodified opinions for the fiscal year ended June 30, 2025. Their independent auditor's report is presented as the first component of the Financial Section of this report.

In addition, MGO conducted the federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing the Single Audit require the independent auditor to report the fair presentation of the financial statements, government internal controls, and compliance with legal requirements.

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

Introduction

This report is divided into three sections:

- **Introductory Section:** includes this letter of transmittal, an organizational overview of the City, and prior awards received.
- **Financial Section:** consists of the independent auditor's report, MD&A, Basic Financial Statements, Notes to Basic Financial Statements, Required Supplementary Information, and Other Supplemental Information.
- **Statistical Section:** contains comprehensive statistical data which relates to physical, social, and political characteristics of the City.

City of Palo Alto Profile

The City was incorporated in 1894 and named after a majestic coastal redwood tree that lives along the San Francisquito Creek where early Spanish explorers settled. Located between the cities of San Francisco and San Jose, the City is a largely built-out community of 67,231 residents. The City delivers a full range of municipal services and public utilities under the Council-Manager form of government and offers an outstanding quality of life for its residents. It covers an area of twenty-six square miles and has dedicated almost one-half of the area to open spaces of parks and wildlife preserves. Public facilities include five libraries, four community centers, a cultural arts center, an adult and children's theater, a junior museum and zoo, an airport, and a golf course. The City provides a diverse array of services for seniors and youth, an extensive continuing education program, concerts, exhibits, team sports and special events. The independent Palo Alto Unified School District (PAUSD) has achieved State and national recognition for the excellence of its programs.

City Council

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

Finance Committee and Policy and Services Committee

While retaining authority to approve all actions, Council has established subcommittees to focus on complex issues in smaller groups, including the Finance Committee and the Policy and Services Committee. The Finance Committee considers and makes recommendations on matters relating to finance, budget, financial audits, capital planning, and debt. Staff provide the committees and Council with reports such as the ACFR, the Long-Range Financial Forecast (LRFF), and various planning reports, all of which are utilized in their review of the City's financial position. The Policy and Services Committee considers and makes recommendations on matters referred by the Council relating to policy matters on intergovernmental relations, personnel policies, planning and zoning traffic and parking, public works, audits, and community and human services. Each committee is comprised of three Council members.

Fiscal/Economic Conditions and Outlook

During the year ended June 30, 2025, the U.S. economy and California's economy showed significant slowdown after the robust growth of 2024. Escalating higher tariffs on U.S. imports and Federal policy uncertainty drove contractions and labor markets to soften. The inflation volatility while remaining above the Federal Reserve 2% targets prompted shifts in monetary policy, triggering the first post-COVID rate reduction by the Federal Reserve in September 2025. California's 2024 calendar year growth (gross domestic product GDP) of 3.2% outpaced most of the other states and U.S. growth rate of 2.8%. However, California's December 2024 unemployment at 5.5% exceeds the national unemployment rate of 4.1%. California experienced slower job growth in 2025 compared to the national average, driven by artificial intelligence (AI) technology labor displacement, coupled with higher interest rates impairing credit-sensitive sectors such as construction. From July 2024 to June 2025, California added 83,800 (0.5% increase) nonfarm jobs compared to the U.S. annual gains of 1,536,000 (a 1.0% increase), which accounts for 5.5% of the national job gain.

The key issues for the California economic outlook include the effects of trade policy, federal government spending reductions, and continued adoption of AI in most industries. The resilience of consumer spending and new developments in California will contribute to growth, partially offsetting the contractions effects of government spending reductions. Federal economic policies may diminish economic activity, and if necessary, prompt course corrections. Inflation will likely be addressed by the Federal Reserve with anticipated rate cut or two before the end of 2025, potentially helping the housing sector.

Employment Trends

The City is located in the heart of Silicon Valley and is adjacent to Stanford University, one of the premier institutions of higher education in the nation which has contributed to the talent that founded many successful high-tech companies in Palo Alto and Silicon Valley. Palo Alto has enjoyed diverse employment and revenue bases supported by relatively stable employers such as Lucille Packard Children's Hospital, Stanford Health Care, Stanford University, Veteran's Affairs Palo Alto Healthcare System, Palo Alto Medical Foundation, Palo Alto Unified School District, Stanford Shopping Center and businesses such as Hewlett-Packard, Tesla, and Rivian. As of June 2025, the City's unemployment rate was 4.2% compared to the prior year level of 3.5%. Unemployment rate for Santa Clara County was 4.6% compared to the prior year level of 4.1%. As of June 2025, the City and Santa Clara County unemployment rates are lower than the California unemployment rate of 5.4%.

Real Estate Market

The 2024-2025 County of Santa Clara (County) Assessor's Annual Report noted that the County annual assessment roll increased by \$35.6 billion to \$696.8 billion, a 5.4% increase over the prior fiscal year. Palo Alto's assessment roll represents 7.5% of the County's assessment roll and grew 4.8% over the prior year to \$51.9 billion. Per the Santa Clara County Association of Realtors, home prices in Palo Alto remain well above the County's average at \$4.4 million as of second quarter 2025. According to Colliers, a company that tracks real estate trends throughout the County, Silicon Valley and Palo Alto average rent for office space was reported

Introduction

at \$5.35 and \$8.57 per square foot, respectively, while research and development space was noted at \$2.83 and \$5.04 per square foot, respectively.

Local Trends

Development of the FY 2025 Budget continued to build upon the reinvestment of services that started in FY 2022 and restored authorized staffing to pre-pandemic levels as of the FY 2024 Budget. Reinvesting in community needs such as public safety services, affordable housing and unhoused services, and transportation and grade separation priorities were the result of voter support of Measure K (business tax), which continued to be critical resources for future investments. The City continued construction of Palo Alto Homekey's innovative interim housing; made progress on infrastructure investments at the Regional Water Quality Control Plant, Fire Station 4 replacement, and modernization of the City's electrical grid; and implemented critical elements of the City's Sustainability & Climate Action Plan.

General Fund Balancing and Results

The FY 2025 Budget carefully balanced fiscal risks stemming from economic uncertainty, plateauing inflation, and supply chain impacts and invested in organizational resilience to ensure the ability to withstand and recover from challenges through targeted resources for workforce attraction and retention. From the pandemic, stagflation, economic uncertainty, to unprecedented weather events, the City and community demonstrated an ability to adjust and stay focused on advancing priorities and addressing changing community needs. Generational investments in electrification, transportation safety at railroad grade crossings, and fiber to the premises continued to make tremendous strides. This budget provided significant investments in innovative services such as affordable housing and homeless services and supplemental funding for on-demand transportation services through Palo Alto Link. Rather than simply bouncing back to pre-pandemic services, this budget invested in service delivery for a sustainable future. This budget continued to reflect the City's ability to bounce forward. To maintain continuity, the Council priorities for 2025 remained unchanged from 2024:

- Economic Recovery and Transition
- Climate Change & Natural Environment - Protection and Adaptation
- Housing for Social and Economic Balance
- Community Health, Safety, Wellness, and Belonging

These priorities are the same priorities continued from 2022, as the Council recognized longer-term strategies were needed to affect change in these areas. Council and staff worked together to identify actionable goals and workplans within each of the priority areas, and a working group was established for each priority area to report progress on a routine basis.

The FY 2025 Budget continued the two-year budget balancing strategy used in FY 2024 - bringing financial planning through June 30, 2026. FY 2025 reflected cautious optimism as inflation and other economic, global and labor market factors impacted both the pace of revenue and expense growth. Through the budget process, the City set a course for near- and mid-term service levels; however, looking beyond this two-year budget strategy, the City

expected to continue facing General Fund deficits requiring a measured approach to ongoing costs to ensure that one-time surpluses were managed in a way that would not exacerbate future deficits. The budget limited ongoing spending, set aside higher reserves, continued funding anticipated legal liabilities, and maintained proactive investment for long-term liabilities. Overall, the City's General Fund was adopted to collect \$287.6 million in revenues against \$306.9 million in expenses. These funding levels reflected a \$27.3 million, or 9.8%, increase compared to the FY 2024 Adopted Budget. In the General Fund, full-time staffing increased from 586.06 FTE to 602.57 FTE (an increase of 16.51 FTE). In FY 2025 salaries and benefits were budgeted to increase by \$13.0 million in the General Fund, representing a 7.8% increase compared to the prior year. This year over year change enhances targeted services, supports Council priorities and continues organizational resilience.

The FY 2025 Budget was developed to invest in long-term service delivery and capital improvement while at the same time mitigating risk through conservative fiscal strategies such as maintaining a prudent budget stabilization reserve. The importance of stability for the organization remained a core value as staff worked to navigate the difficulty of financial forecasting. Although staff remained optimistic and recommended investment in key priority areas, continued economic uncertainty, inflation, and predictions of economic stagnation loomed as potential areas of risk to the City's financial stability.

The FY 2025 Budget continued efforts to proactively fund long-term liabilities and included approximately \$14.1 million (\$8.9 million in the General Fund) in supplemental contributions to the City's Section 115 Pension Trust ("Pension Trust"). Through FY 2025, a total of \$87.5 million in principal contributions have been made to the Pension Trust (approximately \$56.9 million or 65% from the General Fund).

In FY 2014, the City Council approved a \$125.8 million Infrastructure Plan (IP), which included projects such as a new Public Safety Building, replacement of two Fire Stations, a Bike and Pedestrian plan, and two parking garages. Investment in capital infrastructure remained a key priority as part of the development of the 2025-2029 Capital Improvement Plan (CIP). The IP projects were updated for scope increases and cost escalations, resulting in a revised Infrastructure Plan of \$272.8 million. These projects are funded partially by debt to be repaid with voter-approved increases of 3.5% in the transient occupancy tax (TOT) rate and from other sources such as impact fees and Stanford University Medical Center development agreement monies. TOT funding was one of the revenue sources most severely impacted by the COVID-19 pandemic; staff continually revise these figures to adjust and plan for these impacts, while maintaining funding for the City's most critical infrastructure improvements. The capital budget continues to prioritize the 2014 Council approved IP projects, and the recovering economy has increased the funding from the General Fund allowing for reinvestment in the City's streets, parks, and facilities.

Due to the COVID-19 pandemic, the City Council aimed to provide economic relief for residential and commercial utility customers by directing staff to maintain lower rate increases over several years without compromising the safety and integrity of the utility systems. As the City and the economy continue to transition into a steadier state, rates were approved to increase in FY 2025 for all utility services except refuse, which remained flat, resulting in a

Introduction

\$34.55, or 9.11%, increase for the average residential bill. In general, the size and timing of rate adjustments consider current and future revenue requirements and reserve levels for needs such as increasing costs of commodity purchases, capital construction costs, and contractually obligated increases to compensate for inflation, usually based on the annual change to the Bay Area consumer price index (CPI).

Long Range Financial Forecast

The City produces a 10-year General Fund Long Range Financial Forecast (LRFF) annually. This comprehensive report analyzes local, state, and federal economic conditions, short and long-term revenue and expense trends, and addresses challenges such as funding long-term pension and healthcare liabilities and infrastructure needs. The forecast is designed to highlight financial issues for the City Council so that the Council and staff can work proactively to address the City's fiscal health and necessary policy updates as part of the annual budget process that follows the LRFF. Moreover, it is a tool that allows policymakers an opportunity to prioritize funding needs over time, sets the tone for the annual budget process, and is one of the many tools and reports that Council uses for future financial planning. The FY 2025-2034 LRFF was presented to the Finance Committee in December 2023 and approved by the City Council in January 2024. At the time of the development of the FY 2025-2034 LRFF, the economy continued to show strong performance in the first half of calendar year 2023, though signs of slowdown indicated a potential for reduced growth or stagnation in the economy. This forecast recognized the positive trends experienced in major tax receipts beginning in the second half of FY 2023 and through the first half of FY 2024; higher than expected revenues and expense savings had contributed to a net one-time surplus of approximately \$3.4 million above Budget Stabilization Reserve (BSR) targets of 20% at FY 2023 year-end. This amount was allocated as part of the FY 2024 Midyear Budget Review (CMR 2311-2233) to the Pension Trust (\$1.7 million) and Capital Infrastructure Reserve (\$1.7 million). The LRFF was developed at a time of perceived economic stagnation and geo-political unrest. The economy did not trend into the recessionary period that was predicted for the previous several quarters; however, continued economic uncertainty heightened the intensity of financial forecasting and the budget development process. The rigor previously demonstrated by the Council and staff to tackle the challenges of the pandemic continued as staff worked to prioritize the growing needs of the City with the fiscal sustainability of these needs.

The LRFF Base Case projected a shortfall of \$6.0 million in FY 2025, followed by shortfalls ranging from \$5.4 million in FY 2026 down to \$0.5 million in FY 2029, with small but increasing surpluses thereafter. The forecast maintained current service levels approved in FY 2024 and it was used for planning purposes to assist in gauging effects of major policy interventions against a likely "status quo" version of the future. Based on this forecast, staff anticipated that spending prioritization and use of one-time surplus funding in the form of the Uncertainty Reserve (established as part of the FY 2023 Mid-Year Budget) would be necessary to cover short-term gaps over the next several years to maintain financial stability.

Significant Events and Accomplishments

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

- In August 2024, the California Department of Housing and Community Development (HCD) certified the City of Palo Alto Housing Element for the planning period 2023-2031. The Housing Element is one of seven State-mandated components of the City's Comprehensive Plan and sets forth the guiding policies and programs to address the housing needs of all households in the city. Implementation is now underway with thousands of new housing units being considered as well as numerous programs to support housing affordability.
- In Spring 2025, the City Council formally adopted car-free streets, making permanent the closure of California Avenue and part of Ramona Street to automobiles. This decision followed nearly five years of temporary closures that began in 2020, enhancing economic vibrancy and community experience in retail corridors.
- Construction for the Homekey site is underway and anticipated to be completed in 2026. In partnership with LifeMoves, the City is developing interim supportive housing that will provide 88 studio units, community spaces, case management, and wrap-around services for individuals and families experiencing homelessness. This project represents a major milestone in the City's commitment to addressing homelessness and expanding affordable housing opportunities.
- Continued implementation of the 2014 Council Infrastructure Plan:
 - The new Public Safety Building (PSB) is nearing completion, with a temporary occupancy permit issued and phased move-in to start in August. Once open, it will centralize operations for the Police Department, 911 Emergency Dispatch, Emergency Operations Center, and Fire Administration.
 - Downtown Automated Parking Guidance projects in Summer 2025
 - Issued the invitation for bids for Fire Station #4
 - Awarded a design contract for the Downtown Parking Structure project
- Maintained the City's AAA credit rating, which results in the lowest possible borrowing costs; confirmed in the most recent rating by Standard and Poor's and Moody's in December 2024 and April 2025 respectively.
- In partnership with the Palo Alto History Museum, the project at 300 Homer Avenue to restore, preserve, and improve the Roth Building construction was completed in February 2025 and the exhibit design and buildout continues. Soft openings were held in May and June 2025 for the May Fete parade and a Palo Alto Historical Association

Introduction

event, respectively. A full museum opening is anticipated in 2026 following the completion of exhibit buildout.

- Designed the Zero Waste Palo Alto webpage to provide an enhanced user experience for outreach, comprehensive waste prevention information, and other available resources specific to the type of webpage visitor: a resident or a business.
- Developed new and innovative outreach tool on waste reduction resources specifically for businesses. This initiative is the first of its kind and provides tips and best practices for waste prevention in daily operations and procurements. It meets initiative requirements in the Zero Waste Plan and the S/CAP.
- Placed into service a new, fully electric automated side loader collection vehicle for residential garbage collection obtained by the City's contracted hauler, Greenwaste of Palo Alto, increasing their electric fleet to a total of five vehicles providing services to the Palo Alto community.
- Continued partnership of on-site preparation at the Los Altos Treatment Plant for the relocation of Greenwaste of Palo Alto's container storage and staging area, and the installation of new charging stations for electric vehicles, while ongoing construction continues on the Homekey modular interim housing shelter project.
- Continued collaboration with Santa Clara County, other jurisdictions, and Joint Venture Silicon Valley to provide outreach to food services establishments on requirements for food waste reduction, donation of edible food, and conducting inspections to assess compliance with requirement of SB 1383, the State's Short-Lived Climate Pollutant Legislation. In addition, ensured City's compliance with SB 1383 by providing outreach to the community on the requirements and conducting route reviews to visually assess residential and commercial customers.
- Completed Phase I of the Airport Layout Plan, also known as the Long-Range Facilities & Sustainability Plan, as well as completed 50% of Phase II of the project. The project is 75% completed.
- Purchased a zero emissions vehicle (ZEV) truck for the airport, which was 90% funded by the FAA.
- Completed the expansion of service days and hours at all five library branches.
- Celebrated the 10-year anniversary of the renovations of the Mitchell Park Library & Community Center and the Rinconada Library with large-scale public events. This was part of the "Love Your Libraries" series to commemorate the renovation anniversaries of all library branches.

Introduction

- Completed construction of the Primary Sedimentation Tank Rehabilitation Project (WQ-14003) and the Phase 1 of 12kV Loop Rehabilitation Project that is within the recurring Plant Repair, Retrofit, and Equipment Replacement Project (WQ-19002).
- Installed approximately 64,000 or 84% of advanced or smart electric, gas, and water meters as part of the Advanced Metering Infrastructure (AMI) project. The AMI meters will empower customers to more efficiently utilize energy and water, better enable customer adoption of distributed energy resources (DER) such as solar photovoltaics, energy storage, and electric vehicles, and enable the timely detection of water leaks. AMI will also enable Utilities to optimize operations and improve reliability by reducing restoration time for outages.
- Completed construction of the Grid Mod pilot to enable residential electrification to approximately 1,000 residences.

Awards

During the past year, the City received an award for the FY 2024 ACFR from the Government Finance Officers Association (GFOA) for “excellence in financial reporting.” The FY 2025 ACFR will be submitted to the GFOA award program to be considered for this distinguished financial reporting award.

Acknowledgments

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

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

Respectfully submitted,



LAUREN LAI
Chief Financial Officer



ED SHIKADA
City Manager

City of Palo Alto City Officials

City Council

Ed Lauing, ***Mayor***
Vicki Veenker, ***Vice-Mayor***
Patrick Burt
Julie Lythcott-Haims
George Lu
Keith Reckdahl
Greer Stone

Finance Committee

Patrick Burt, ***Chair***
Julie Lythcott-Haims
Keith Reckdahl

Policy and Services Committee

Vicki Veenker, ***Chair***
George Lu
Greer Stone

Council-Appointed Officers

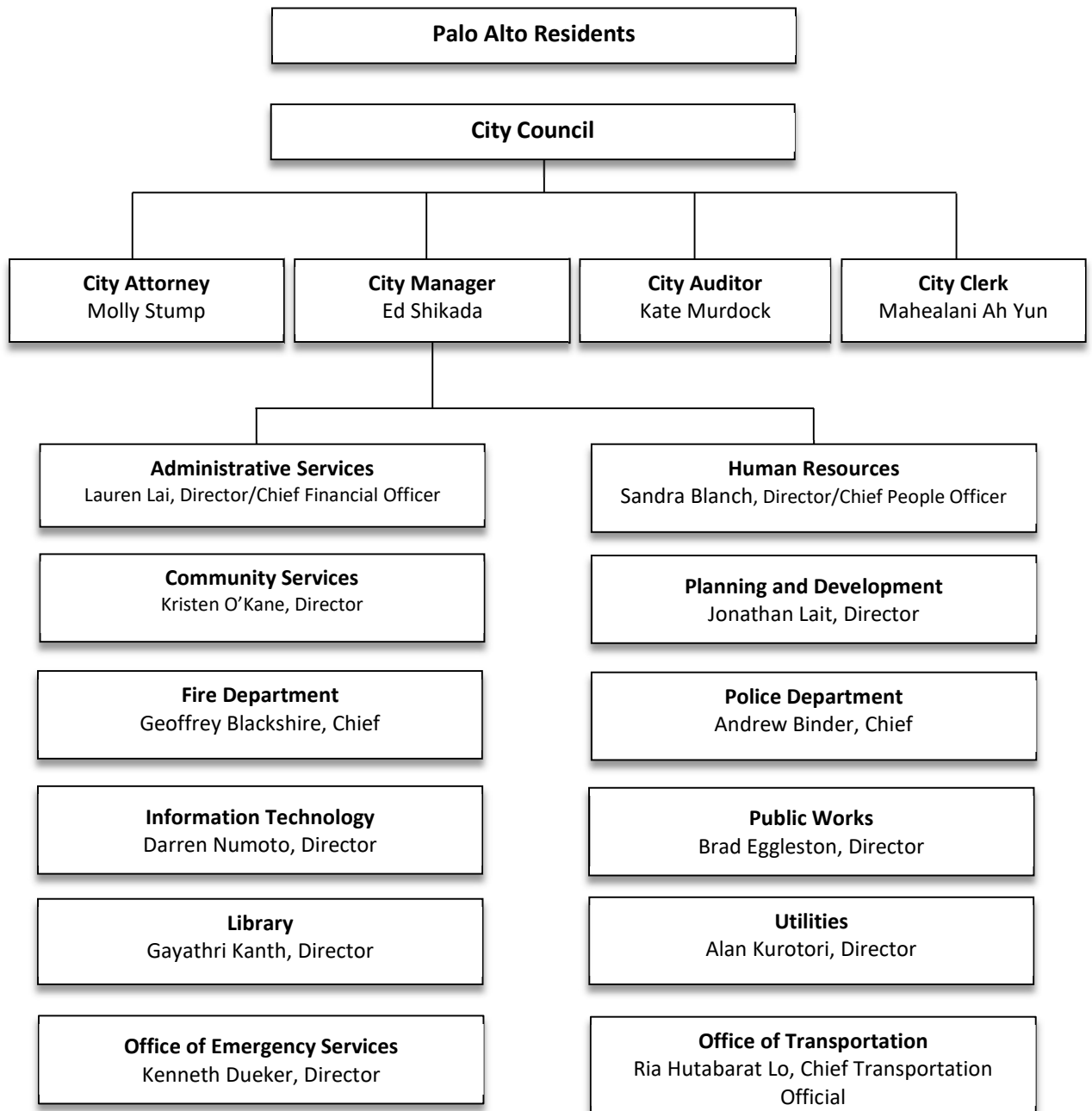
City Manager
Ed Shikada

City Attorney
Molly Stump

City Clerk
Mahealani Ah Yun

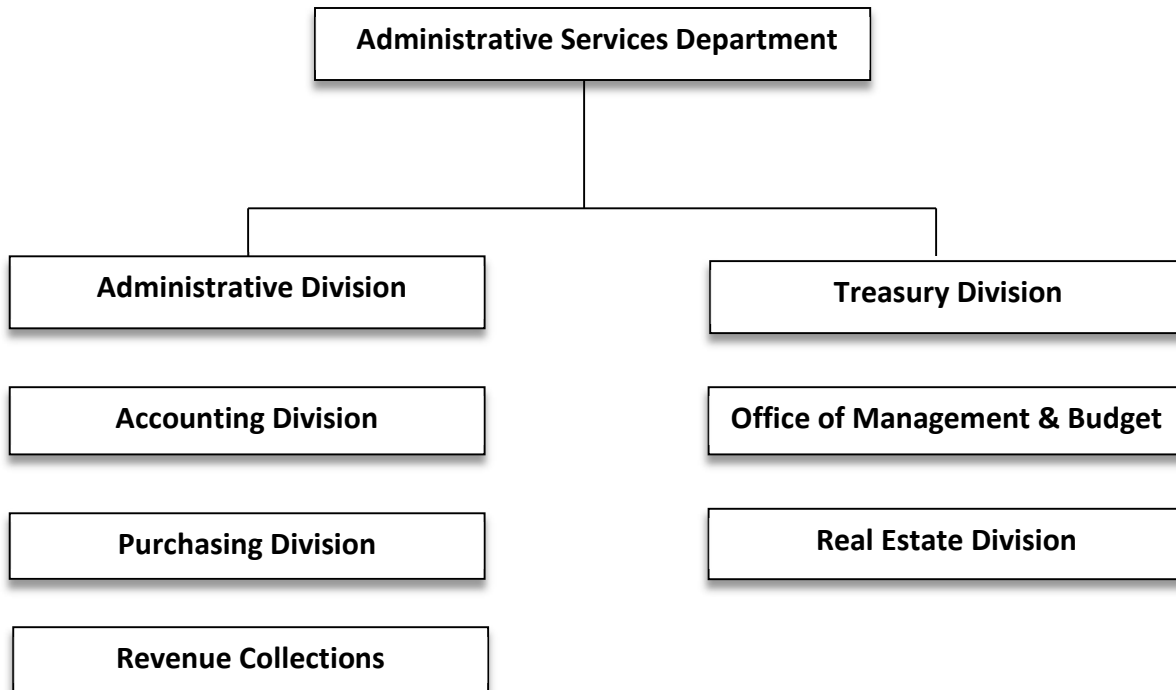
City Auditor
Kate Murdock

City of Palo Alto Organization



Introduction

Administrative Services Organization



Mission Statement

The Administrative Services Department strives to provide proactive financial and analytical support to City departments and decision-makers, and to safeguard and facilitate the optimal use of City resources.

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



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Palo Alto
California**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2024

Christopher P. Morill

Executive Director/CEO

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Palo Alto, California (City), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1(n) to the financial statements, effective July 1, 2024, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of changes in net pension liability and related ratios, the schedules of pension contributions, the schedule of changes in net OPEB liability and related ratios, and the schedule of employer OPEB contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the individual and combining fund financial statements and schedules and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual comprehensive financial report. The other information comprises the introductory section and statistical section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2025, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Walnut Creek, California
October 31, 2025

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City of Palo Alto

Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis (MD&A) provides an overview of the City of Palo Alto's (City) Annual Comprehensive Financial Report (ACFR), the document which reports on the City's financial performance for the Fiscal Year (FY) ended June 30, 2025. To obtain a complete understanding of the City's financial condition, this document should be read in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

FINANCIAL HIGHLIGHTS

Financial highlights for FY 2025 are outlined below. Details can be found in the Government-Wide and Fund Financial Statement analysis of this MD&A.

Government-Wide Financial Statements

- Net Position, which is the difference between total assets and deferred outflows of resources minus total liabilities and deferred inflows of resources is \$1.6 billion at the close of FY 2025. Of this amount, \$116.9 million represents unrestricted Net Position, which may be used to meet the City's ongoing obligations.
- The City's total Net Position increased \$112.2 million, or 7.7% over the prior fiscal year. Of this amount, \$25.8 million was generated by Governmental Activities and \$86.4 million by Business-Type Activities.
- The City's total outstanding long-term debt increased by \$43.3 million due to receipt of \$53.5 million in loan proceeds from the State Water Resource Control Board, offset by scheduled debt service payments.

Fund Financial Statements

- The City's governmental funds reported total fund balances of \$317.6 million, a decrease of \$1.9 million from the prior fiscal year. Approximately \$52.9 million of this amount, or 16.7%, is unassigned fund balance and available for spending at the City's discretion.
- Total fund balance of the General Fund is \$103.8 million, compared to \$106.7 million in the prior fiscal year, a 2.7% decrease. The Unrestricted General Fund balance (the total of the committed, assigned, and unassigned components of fund balance) is \$89.6 million, compared to \$94.5 in prior fiscal year, a 5.0% decrease.

OVERVIEW OF THE ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR)

The ACFR consists of a series of financial statements and notes to those statements and is presented in three sections:

- Introductory section: includes the Transmittal Letter and general information
- Financial section: includes the following:
 - Management's Discussion and Analysis
 - Basic Financial Statements: includes the Government-Wide and Fund Financial Statements, and accompanying Notes to the Basic Financial Statements
 - Required Supplementary Information (RSI) and Supplemental Information
- Statistical section

The primary objective of governmental accounting is to provide accurate financial information to support decision making, demonstrate accountability, and ensure proper stewardship of public funds. In contrast to private-sector accounting, governmental accounting has unique characteristics and reporting requirements due to the nature of government operations. The Government Accounting Standards Board (GASB) is a private non-profit body that sets Generally Accepted Accounting Principles (GAAP) for U.S. state and local governments. GASB creates and updates standards on how these agencies record and report their financial information.

Throughout this document, references to GASB Pronouncements are referenced by their statement issuance number. A listing of all GASB Pronouncements can be found on its website at www.gasb.org/standards-and-guidance/pronouncements. In FY 2025, the City implemented the following pronouncements in this ACFR:

- GASB No. 101 – *Compensated Absences*: updates the recognition and measurement guidance for compensated absences to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. Recognition and measurements guidance are aligned under a unified model and footnote disclosures were updated. As of July 1, 2024, the City restated its net position to record the changes in compensated absences liabilities.
- GASB No. 102 – *Certain Risk Disclosures*: provides information to users of government financial statements about risks that could impact a government's financial health. The statement aims to improve the consistency and transparency of how governments disclose information about risk financing and insurance-related transactions. Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2025.

Government-Wide Financial Statements

The Government-Wide Financial Statements provide a longer-term, holistic view of the City's activities. The Government-Wide Financial Statements include the Statement of Net Position and the Statement of Activities, which are both presented using the full accrual basis of accounting,

similar to the basis used by companies in the private sector. Over time, increases or decreases in Net Position may serve as a useful indicator of the City's overall financial position and health.

The Statement of Activities presents the City's revenues and expenses, highlighting the net cost or benefit of each program. It also shows how the City's Net Position changed during the fiscal year. These changes are reported when the underlying economic event occurs, regardless of the timing of related cash flows.

In addition, to provide a snapshot of the two primary types of activities that the City operates, both Statements categorize activity as either Governmental or Business-Type. To provide a summary of each type of activity, the amounts in the Statement of Net Position and the Statement of Activities are separated into Governmental and Business-Type Activities.

The Government-Wide Financial Statements can be found on pages 31-32 of this report.

Governmental Activities

The City's basic services are Governmental Activities. Examples of these basic services are the City Council, City Manager, City Attorney, City Clerk, City Auditor, Administrative Services, Human Resources, Public Works, Planning and Development Services, Office of Transportation, Police, Fire, Community Services, and Library Departments. These services are supported by City's general revenues such as taxes, and by specific program revenues such as fees and grants.

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

Business-Type Activities

The City's enterprise activities are reported as Business-Type Activities and are intended to recover all or a significant portion of their costs through user fees and charges. These services include Water, Electric, Fiber Optics, Gas, Wastewater Collection, Wastewater Treatment, Refuse, Storm Drainage, and the Airport.

Fund Financial Statements

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

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

Governmental Funds

Governmental Fund Financial Statements are prepared using the modified accrual basis of accounting, which measures current financial resources and uses. Capital assets, other long-term assets, and long-term liabilities are presented only in the Government-Wide Financial Statements. In FY 2025, the City had two major governmental funds: the General Fund and the Capital Projects Fund. Details for non-major funds can be found in the Supplemental Information section of this report.

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

The Governmental Fund Financial Statements can be found on pages 33-37 of this report.

Proprietary Funds

Enterprise and Internal Service Fund Financial Statements are prepared on the full accrual basis of accounting, the same basis of accounting that is used in the Government-wide Financial Statements. These statements include current and long-term assets, deferred outflows of resources, current and long-term liabilities, and deferred inflows of resources.

The City's Internal Service Funds provide goods and services exclusively to the City's Governmental and Business-Type Activities and reported in the Supplemental Information section. Revenues between funds are eliminated in the Government-Wide Financial Statements, and any related profits or losses in Internal Service Funds are returned to the activities in which they were created, along with any residual Net Position of the Internal Service Funds. Internal Service Funds cannot be considered major funds because their revenues are derived from other City funds.

The Proprietary Fund Financial Statements can be found on pages 38-43 of this report.

Fiduciary Funds

The financial activities of Fiduciary Funds are excluded from the Government-Wide Financial Statements and are presented separately. Fiduciary Funds are used to account for assets held by the City as a trustee or agent on behalf of other entities and/or individuals. Fiduciary Funds are also used to report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. These include balances and activities of the Cable Joint Powers Authority and the assessment district.

The Fiduciary Fund Financial Statements can be found on pages 44-45 of this report.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information that is necessary to acquire a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The Notes to the Basic Financial Statements can be found on pages 49-110 of this report.

Required Supplementary (RSI) and Supplemental Information

The Required Supplementary Information related to the City's pension and OPEB plans are included after the Notes to the Basic Financial Statements on pages 111-116. The combining statements and individual fund statements and schedules referred to earlier in connection with Non-major Governmental Funds and Internal Service Funds are presented immediately following the Required Supplementary Information for pension and OPEB and can be found on pages 117-141 of this report.

GOVERNMENT-WIDE FINANCIAL STATEMENTS ANALYSIS

Citywide Financial Statements

This section focuses on the City's Net Position and changes in Net Position of its Governmental and Business-Type Activities for the fiscal year ended June 30, 2025. As noted previously, the City's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$1.6 billion, an increase in Net Position of \$112.2 million. The increase included the impact of the restatement to the beginning net position of \$9.5 million due to the implementation of GASB No. 101.

Table 1:
Condensed Statement of Net Position
As of June 30
(in millions)

	Governmental Activities		Business-type Activities		Government-Wide Totals		Increase/ (Decrease)
	2025	2024	2025	2024	2025	2024	
Cash and investments	\$ 462.7	\$ 444.8	\$ 280.6	\$ 240.7	\$ 743.3	\$ 685.5	\$ 57.8
Other assets	81.8	89.6	83.3	80.4	165.1	170.0	(4.9)
Capital assets	709.9	703.1	979.5	885.6	1,689.4	1,588.7	100.7
Total Assets	1,254.4	1,237.5	1,343.4	1,206.7	2,597.8	2,444.2	153.6
Unamortized loss from refunding	-	-	-	0.1	-	0.1	(0.1)
Pension and OPEB related	94.1	121.4	37.0	47.9	131.1	169.3	(38.2)
Total Deferred Outflows of Resources	94.1	121.4	37.0	48.0	131.1	169.4	(38.3)
Other liabilities	87.3	99.0	42.6	40.1	129.9	139.1	(9.2)
Net pension and OPEB liabilities	464.2	479.9	164.4	173.4	628.6	653.3	(24.7)
Lease and SBITA liabilities	14.0	8.4	10.0	6.3	24.0	14.7	9.3
Long-term debt	197.1	202.8	174.3	125.3	371.4	328.1	43.3
Total Liabilities	762.6	790.1	391.3	345.1	1,153.9	1,135.2	18.7
Pension and OPEB related	4.1	12.0	1.8	4.7	5.9	16.7	(10.8)
Lease related	2.4	3.1	0.2	4.2	2.6	7.3	(4.7)
Unamortized gain from refunding	2.0	2.1	-	-	2.0	2.1	(0.1)
Total Deferred Inflows of Resources	8.5	17.2	2.0	8.9	10.5	26.1	(15.6)
Net Position							
Net investment in capital assets	496.7	489.7	795.3	755.5	1,292.0	1,245.2	46.8
Restricted	151.5	130.8	4.1	3.0	155.6	133.8	21.8
Unrestricted	(70.8)	(68.9)	187.7	142.2	116.9	73.3	43.6
Total Net Position	\$ 577.4	\$ 551.6	\$ 987.1	\$ 900.7	\$ 1,564.5	\$ 1,452.3	\$ 112.2

Cash and investments increased \$57.8 million primarily due to revenues exceeding expenses and an increase in fair value of the investment portfolio as of June 30, 2025.

Other Assets decreased \$4.9 million primarily due to a \$4.7 million decrease in lease receivables. The decrease is primary due to receipt of lease payments and termination of leases which no longer meet the definition as leases. In addition, deposits decreased by \$2.0 million as amounts previously held with the contractor under a cost-reimbursement arrangement for the Roth Building project were applied toward the final payment upon completion of construction. These decreases were partially offset by higher interest and notes receivable.

Capital assets increased \$100.7 million: for governmental activities, the increase is primarily due to continued construction of various capital projects including the New Public Safety Building, Roth Building Rehabilitation, Boulevard Park Improvement, Parking Guidance Systems, Fire Station No. 4 Replacement, and the Street Maintenance and Sidewalk Repairs projects for governmental activities; for business-type activities, the increase is due to ongoing construction at the Water Quality Control Plant including primary and secondary sedimentation projects, and Electric Distribution System Improvements such as grid modernization for electrification and smart grid installations.

Other liabilities decreased \$9.2 million due to a \$12.0 million reduction in claim settlement accruals and \$9.5 million in payments for the second and third set of refunds and legal fees related to a class action lawsuit involving the City's gas and electric rates (Green v. City of Palo Alto, Santa Clara Superior Court, Case No. 1-16-CV-300760). These decreases were partially offset by a \$11.1 million increase in compensated absences resulting from implementation of GASB No. 101.

Long term debt increased \$43.3 million largely due to receipt of \$53.5 million in loan proceeds from the State Water Resource Control Board, offset by scheduled debt service payments.

Net pension and OPEB liabilities decreased \$24.7 million. In addition, related net pension and OPEB deferred outflows of resources decreased by \$38.2 million, and related deferred inflows of resources decreased by \$10.8 million due to changes in balances in accordance with GASB No. 68 and No. 75. Additional information can be found in Notes 12 and 13 to the financial statements.

The largest portion of the City's Net Position is its net investment in capital assets, making up \$1.3 billion, or 82.6%, of the total net position. This category of Net Position includes land, buildings, infrastructure, vehicles, and intangible assets, less any related outstanding debt that was used to acquire or construct those assets. The City uses these capital assets to provide a variety of services to its residents and community members. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the City's Net Position, \$155.6 million or 9.9% of the total net position, represents resources that are subject to external restrictions on how they may be used. The unrestricted portion of Net Position is \$116.9 million or 7.5% of the City's Net Position and may be used to meet the City's ongoing obligations.

Overall, the City's Unrestricted Net Position is positive on a combined basis for Governmental Activities and Business-Type Activities. The Unrestricted Net Position for Governmental Activities is negative \$70.8 million due to recognition of net pension liabilities and deferred pension outflows and inflows of resources, as required by GASB No. 68, and net OPEB liabilities and deferred OPEB outflows and inflows of resources, as required by GASB No. 75. Governmental Unrestricted Net Position includes the net impact of net pension and net OPEB liabilities and its related deferred outflows and inflows of resources, \$314.8 million and \$59.4 million, respectively. Excluding these impacts, the Unrestricted Net Position for Governmental Activities is \$303.3 million.

Components of the \$112.2 million increase in total Net Position, outlined in Table 2, are discussed in the following sections for Governmental Activities and Business-Type Activities.

Table 2:
Condensed Statement of Activities
For the Year Ended June 30
(in millions)

	Governmental Activities		Business-Type Activities		Total		Increase/ (Decrease)
	2025	2024	2025	2024	2025	2024	
Revenues							
Program Revenues							
Charges for Services	\$ 77.5	\$ 72.8	\$ 480.0	\$ 440.0	\$ 557.5	\$ 512.8	\$ 44.7
Operating Grants and Contributions	5.4	7.1	0.5	0.4	5.9	7.5	(1.6)
Capital Grants and Contributions	6.5	6.3	1.3	3.5	7.8	9.8	(2.0)
General Revenues							-
Property Tax	73.7	70.6	-	-	73.7	70.6	3.1
Sales Tax	35.2	37.5	-	-	35.2	37.5	(2.3)
Utility User Tax	20.4	19.0	-	-	20.4	19.0	1.4
Transient Occupancy Tax	29.0	27.8	-	-	29.0	27.8	1.2
Documentary Transfer Tax	8.4	7.0	-	-	8.4	7.0	1.4
Business Tax	5.7	5.3	-	-	5.7	5.3	0.4
Investment Earnings	32.0	22.6	14.6	11.8	46.6	34.4	12.2
Other	4.9	4.0	-	0.4	4.9	4.4	0.5
Total revenues	298.7	280.0	496.4	456.1	795.1	736.1	59.0
Expenses							
City Council	0.3	0.3	-	-	0.3	0.3	(0.0)
City Manager	3.6	3.2	-	-	3.6	3.2	0.4
City Attorney	2.9	2.8	-	-	2.9	2.8	0.1
City Clerk	0.8	0.7	-	-	0.8	0.7	0.1
City Auditor	0.8	0.4	-	-	0.8	0.4	0.4
Administrative Services	12.5	13.0	-	-	12.5	13.0	(0.5)
Human Resources	3.6	3.0	-	-	3.6	3.0	0.6
Public Works	51.9	49.1	-	-	51.9	49.1	2.8
Planning and Development Services	23.1	26.6	-	-	23.1	26.6	(3.5)
Office Of Transportation	9.0	6.3	-	-	9.0	6.3	2.7
Police	58.9	52.3	-	-	58.9	52.3	6.6
Fire	54.6	45.0	-	-	54.6	45.0	9.6
Community Services	45.1	44.1	-	-	45.1	44.1	1.0
Library	14.7	13.3	-	-	14.7	13.3	1.4
Interest on Long Term Debt	6.3	6.4	-	-	6.3	6.4	(0.1)
Water	-	-	51.7	50.2	51.7	50.2	1.5
Electric	-	-	179.6	170.8	179.6	170.8	8.8
Fiber Optics	-	-	3.6	2.9	3.6	2.9	0.7
Gas	-	-	41.4	42.9	41.4	42.9	(1.5)
Wastewater Collection	-	-	26.3	24.7	26.3	24.7	1.6
Wastewater Treatment	-	-	36.1	34.6	36.1	34.6	1.5
Refuse	-	-	35.2	35.6	35.2	35.6	(0.4)
Storm Drainage	-	-	7.1	6.9	7.1	6.9	0.2
Airport	-	-	4.3	2.9	4.3	2.9	1.4
Total expenses	288.1	266.5	385.3	371.5	673.4	638.0	35.4
Change in net position before transfers	10.6	13.5	111.1	84.6	121.7	98.1	23.6
Transfers	24.7	21.6	(24.7)	(21.6)	-	-	-
Change in Net Position	35.3	35.1	86.4	63.0	121.7	98.1	23.6
Net position, beginning of year	551.6	516.5	900.7	837.7	1,452.3	1,354.2	98.1
Restatement for implementation of GASB Statement No. 101	(9.5)	-	-	-	(9.5)	-	(9.5)
Net Position, beginning of year, as restated	542.1	516.5	900.7	837.7	1,442.8	1,354.2	88.6
Net position, end of year	\$ 577.4	\$ 551.6	\$ 987.1	\$ 900.7	\$ 1,564.5	\$ 1,452.3	\$ 112.2

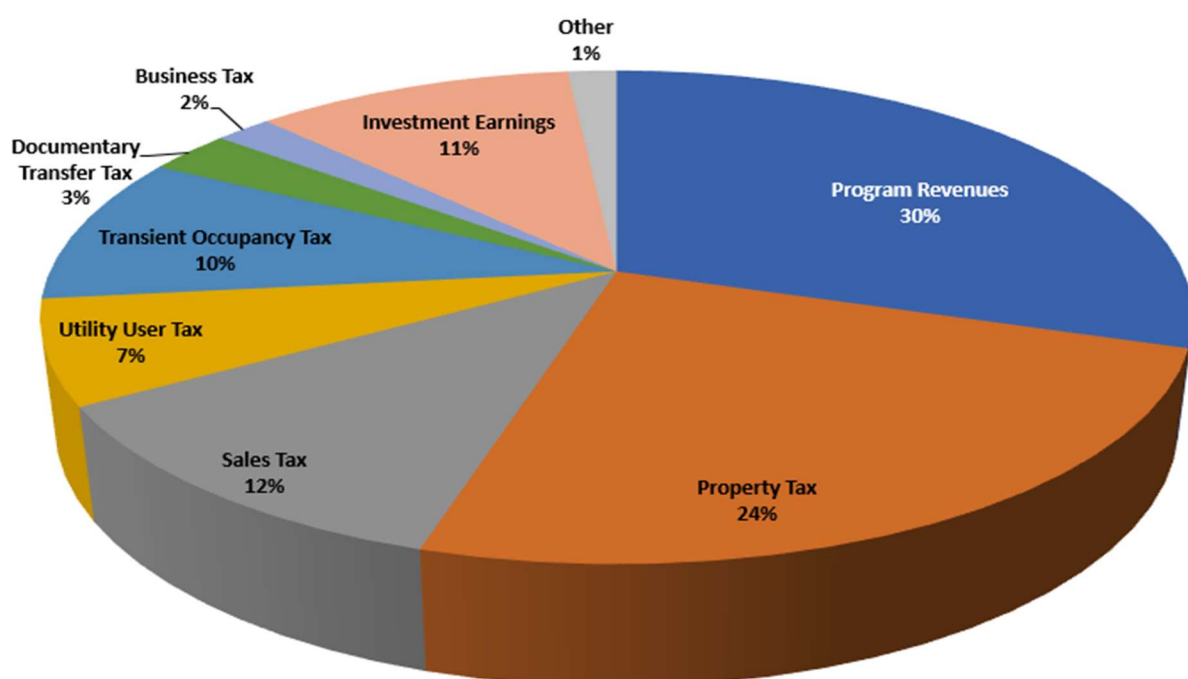
Governmental Activities – Revenues and Expenses

Overall, Governmental Activities Net Position of \$577.4 million increased by \$25.8 million when compared to prior year. The increase included the impact of the restatement to the beginning net position of \$9.5 million due to the implementation of GASB No. 101. The significant key factor of this increase is driven by increases in program revenues, general taxes revenues, and investment earnings.

Revenues by Source

The chart below presents revenues by source for Governmental Activities. Approximately one half of Government Revenue is comprised of Program Revenues and property tax. Program Revenues such as charges for services, operating grants and contributions, and capital grants and contributions are generated from or restricted to each activity. General revenues are composed of taxes and other revenues not specifically generated by, or restricted to, individual activities.

Chart 1: Governmental Revenue



Revenue Highlights

Total Governmental Revenues before transfers are \$298.7 million, a \$18.7 million increase or 6.7%, when compared to the prior fiscal year. Program revenues increased due to higher charges for services across several City operations. In addition, a large portion of this increase, \$7.5 million, is driven by major tax revenues, primarily property tax, utility user tax, transient occupancy tax, documentary transfer tax, and business tax revenue. Details of these increases are outlined below.

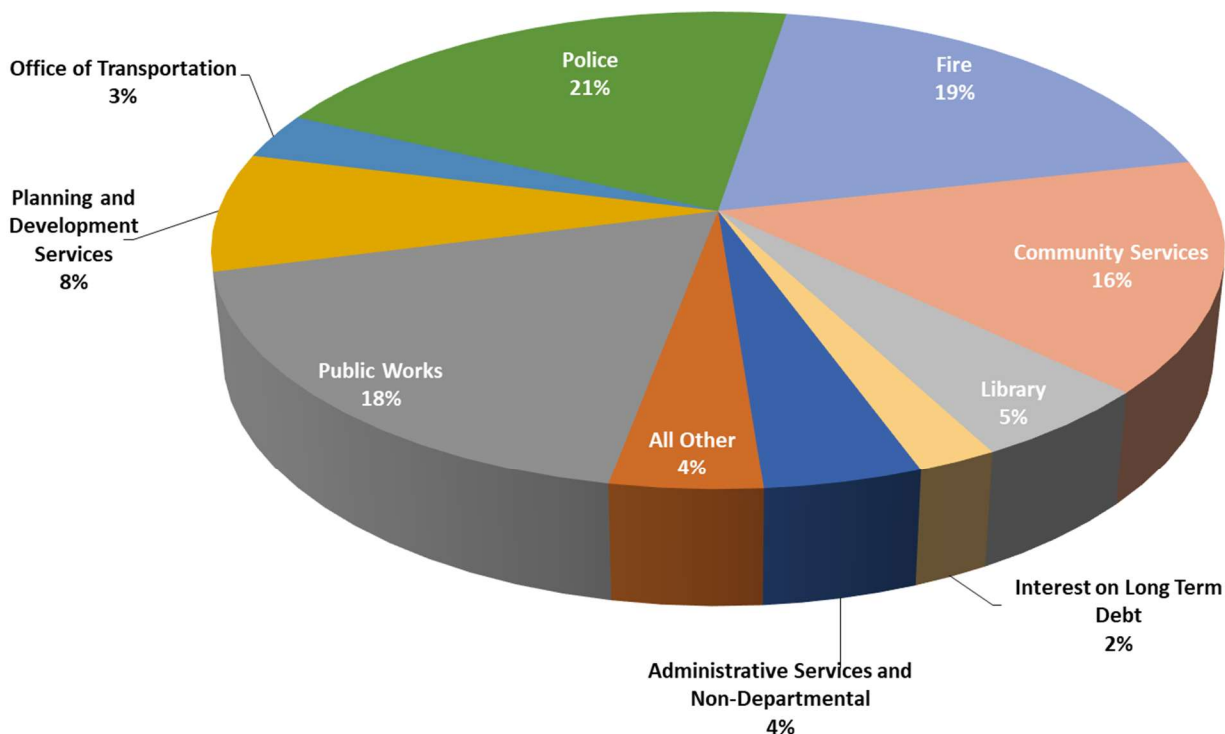
- Program revenues increased by \$3.2 million, or 3.7%, primarily due to higher Charges for Services revenues. These revenues increased \$4.7 million from higher reimbursements for fire services and paramedic services, charges related to the City’s golf course, arts and science classes, plan check charges, Building Permits, Fire Permits, and miscellaneous health and safety-related licenses. These increases were partially offset by a \$1.5 million decrease in operating and capital grants and contributions.
- Property taxes increased by \$3.1 million, or 4.4% over the prior fiscal year and the transfer of ownership has been a significant driver of growth.
- Sales tax decreased by \$2.3 million, or 6.1%, over the prior fiscal year, due to the decline of auto sales and leasing.
- Utility user tax (UUT) increased by \$1.4 million, or 7.4%, over the prior fiscal year, due to greater utility consumption.
- Transient occupancy tax (TOT) increased by \$1.2 million, or 4.3% over the prior fiscal year, due to higher room rates.
- Documentary transfer tax increased by \$1.4 million, or 20.0%, due to higher total property sales activity. Despite this robust performance, documentary transfer tax remains a volatile revenue stream, sensitive to fluctuations in real estate market activity and the mix of residential versus commercial sales. Considering this volatility, staff closely monitors incoming receipts and adjust forecasts as needed.
- Business tax revenue increased by \$0.4 million, or 7.5%, compared to the prior year. This increase was mainly due to the Business Tax rate changing from 3.75 cents to 7.5 cents per square foot, which became effective in January 2025. As a result, businesses began paying the higher monthly rate in the second half of the fiscal year, leading to higher revenue. It is important to note that the prior fiscal year’s revenue included six months of collections at the previous rate structure due to the timing of implementation, which partially offsets the FY 2025 year-over-year increase. This revenue source is dedicated to transportation and safe train crossings, housing affordability and services for the unhoused, and public safety.
- Investment earnings increased by \$9.4 million mainly due to an increase in fair value of the investment portfolio. Portfolio performance also aligned with overall market gains during the fiscal year, further contributing to the increase.

Expenses

Chart 2 presents the City’s governmental functional expenses for the current fiscal year. These figures represent operating expenses net of revenues generated by specific functions and exclude capital outlays, which are instead capitalized as part of the City’s assets. Functions accounting for less than 2% of total expenses are consolidated under the “All Other” category. This category includes departments such as City Council, City Manager, City Attorney, City Clerk,

City Auditor, and Human Resources. Fire and Police services represent two-fifths or 40% of the governmental expenses.

Chart 2: Governmental Expense



Expense Highlights

Total functional expenses are \$288.1 million in FY 2025, a \$21.6 million increase or 8.1%, when compared to the prior fiscal year. The increase was primarily due to increases in contract services and salaries and benefits, partially offset by a \$5.8 million decrease in GASB-required pension and OPEB expense adjustments (GASB No. 68 and No. 75). The increase in salaries and benefits costs is attributed to improved employment recruitment, Council-approved general and market salary adjustments, and employee merit and step increases. Contract services increased due to citywide agreements, including those for audit and financial services such as the citywide risk assessment, feasibility and environmental studies, and janitorial and landscaping services.

- Public Works total expenses increased by \$2.8 million, primarily due to higher salaries and benefits, along with increased contract services costs, notably for janitorial services, which reflect scheduled annual rate increments and non-capitalizable project expenses related to City bridges assessment and repairs, Baylands Boardwalk piling repairs, Cubberley Center repairs, and street maintenance.

- Planning and Development Services total expenses decreased by \$3.5 million, primarily due to the realignment of Fire Prevention-related expenses, including associated salaries and wages, from Development Services to Fire Services.
- Office of Transportation total expenses increased by \$2.7 million, due to the increase in non-capitalizable project expenses related to improvements on Transportation and Parking, Bicycle & Pedestrian Transportation plan, the El Camino/Churchill enhanced bikeway, and the projects on Safe Routes to School and Paid Parking.
- Police and Fire total expenses increased by \$6.6 million and \$9.6 million, respectively, mainly due to increases in the salary and benefit cost category. These increases were driven by improved employment recruitment, contractually obligated wage adjustments, pension, and OPEB costs. Overtime also contributed to the overall increase, resulting from ongoing staffing shortages, temporary gaps caused by the training of new recruits, leave of absence coverage and mutual aid strike team deployments. Staff time for strike team deployments are fully reimbursable by California Governor's Office of Emergency Services (CAL OES).
- Community Services expenses increased by \$1.0 million, mainly due to an increase in salaries and benefits.
- Library expenses increased by \$1.4 million, primarily due to an increase in salaries and benefits.

Business-Type Activities – Revenues and Expenses

Net position for Business-Type Activities increased by \$86.4 million, primarily driven by strong operating results in the Electric, Wastewater Treatment, Gas, and Water Funds. This growth outpaced the prior fiscal year's increase of \$63.0 million, reflecting improved performance across the City's utility operations.

Revenues

Business-Type Activities revenues before transfers are \$496.4 million, a \$40.3 million increase compared to the prior fiscal year. Charges for Services increased by \$40.0 million, while Operating Grants and Contributions increased by \$0.1 million, and Capital Grants and Contributions decreased by \$2.2 million. General Revenues increased by \$ 2.4 million mainly due to an increase in fair value of investments portfolio on June 30, 2025. Table 3 compares FY 2025 and FY 2024 Business-Type Activities Revenues.

Table 3:
Business-Type Activities - Revenues
For the Year Ended June 30
(in millions)

	<u>2025</u>	<u>2024</u>	<u>Increase/ (Decrease)</u>
Program Revenue			
Water	\$ 57.2	\$ 50.8	\$ 6.4
Electric	238.9	225.7	13.2
Fiber Optics	3.8	3.9	(0.1)
Gas	60.0	54.1	5.9
Wastewater Collection	30.4	23.3	7.1
Wastewater Treatment	46.4	38.4	8.0
Refuse	32.5	32.8	(0.3)
Storm Drainage	9.1	8.6	0.5
Airport	3.5	6.3	(2.8)
Total Program Revenues	481.8	443.9	37.9
General Revenues	14.6	12.2	2.4
Total Revenues Before Transfers	<u>\$ 496.4</u>	<u>\$ 456.1</u>	<u>\$ 40.3</u>

- Water revenue increased \$6.4 million or 12.6% from the prior fiscal year, due to a 9.5% overall rate increase effective July 1, 2024, and higher water consumption.
- Electric revenue increased \$13.2 million, or 5.8%, from the prior fiscal year primarily due to a \$13.1 million increase in Charges for Services. This increase reflects a \$7.4 million growth in customer sales, due to rate adjustments effective July 1, 2024, the addition of a new data center, and higher consumption. Other operating revenues increased by \$7.7 million, mainly due to higher renewable energy credit (REC) sales due to stronger market prices, partially offset by \$3.7 million decrease in resource adequacy sales.
- Gas Fund revenue increased \$5.9 million or 10.9%, mainly driven by a 12.5% gas rate increase effective July 1, 2024, partially offset by a decrease in customer consumption.
- Wastewater Collection revenue increased \$7.1 million, or 30.5%, from the prior fiscal year primarily due to higher customer sales resulting from a 15.0% overall rate increase for residential and commercial customers, effective July 1, 2024. Other operating revenues increased by \$2.9 million primarily due to reimbursement from Valley Water under the Guiding Principle #5 (GP5) Cost Share Agreement for eligible water infrastructure projects.

- Wastewater Treatment revenue increased \$8.0 million, or 20.8%, from the prior fiscal year due to higher billing to partners driven by increased operating and capital costs as well as higher billing to Valley Water for Advanced Purification System under the partnership agreement.
- Airport revenue decreased \$2.8 million, or 44.4%, from the prior fiscal year primarily due to a \$3.1 million decrease in capital grants received from the Federal Aviation Administration for various airport projects.

Expenses

Business-Type Activities expenses totaled \$385.3 million, an increase of \$13.8 million, or 3.7%, from the prior fiscal year. The increase was primarily driven by higher commodity prices. Please refer to Table 2 for Business-Type Activities expense information.

- Water expenses increased by \$1.5 million, or 3.0%, from the prior fiscal year due to higher commodity purchases caused by increased customer consumption and higher wholesale water rates. The San Francisco Public Utilities Commission (SFPUC) commodity rate increased from \$5.21 to \$6.67, an 8.8% increase.
- Electric expenses increased by \$8.8 million, or 5.2%, from the prior fiscal year mainly due to a \$16.2 million increase in commodity purchases primarily due to higher renewable energy purchases, increased operating and maintenance assessments from the Transmission Agency of Northern California (TANC) and Calaveras and higher Western power and Northern California Power Agency (NCPA) facility costs. These increases were partly offset by lower carbon-neutral purchases, reduced transmission charges, and lower NCPA pooling costs, as well as a \$4.1 million decrease in joint agency service payments to the NCPA, related to reduced debt service costs related to the Calaveras hydroelectric project.
- Gas expenses decreased by \$1.5 million, or 3.5%, and are driven by lower commodity purchases due to the declines in market prices and reduced Renewable Energy Certificate (REC) purchases.
- Wastewater Collection expenses increased by \$1.6 million, or 6.5%, due to the increase in the City's share of operating costs and minor capital projects to maintain the Regional Water Quality Control Plant.
- Wastewater Treatment expenses increased by \$1.5 million, or 4.3%, due to higher contract services for sludge management and increased utility charges.
- Airport Fund expenses increased by \$1.4 million or 48.3% primarily due to higher depreciation expense following the capitalization of \$41.2 million Airport Apron Reconstruction project in September 2024.

FUND FINANCIAL STATEMENTS ANALYSIS

Financial Analysis of Governmental Funds

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

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

As of June 30, 2025, the City's Governmental Funds reported combined fund balances of \$317.6 million, a decrease of \$1.9 million from the prior fiscal year. The decrease is mainly from the General Fund. Approximately \$52.8 million, or 16.6%, constitutes unassigned fund balance, which is available for spending at the City's discretion and other purposes. The remainder of the fund balance is either non-spendable, restricted, committed, or assigned to indicate that it is: 1) non-spendable (\$16.9 million); 2) restricted (\$38.9 million); 3) committed (\$91.8 million); or 4) assigned for particular purposes (\$117.2 million).

Governmental Fund revenues increased by \$12.3 million, or 4.6%, from the prior fiscal year to \$280.8 million. General Fund revenues increased by \$10.1 million, Capital Projects Fund decreased by \$1.4 million, or 30.3%, and Non-major Governmental Fund increased by \$3.6 million, or 16.5%. Details of significant changes are discussed in the following sections.

Governmental Fund expenditures are \$318.7 million, an increase of \$30.2 million from the prior fiscal year. General Fund expenditures increased by \$26.9 million, Capital Projects Fund expenditures increased by \$1.6 million, and Non-major Governmental Funds expenditures increased by \$1.7 million. Details of significant changes are discussed in the following sections.

Business Tax Revenues, Expenses, and Reserves

The City's Business Tax (Measure K) was passed by voters in November 2022. The City Council adopted advisory spending guidelines for the proceeds of the City's business tax. These guidelines require that the City report receipts from business tax and that year's spending from business tax proceeds be for housing affordability and services for unhoused, transportation and safe train crossings, and public safety.

Included in the committed fund balance of the General Fund are the reserves for Housing Affordability and Services for the Unhoused and Transportation and Safe Train Crossings. These reserves represent unspent Business Tax proceeds. Assessment of the tax began in January 2023 and the first annual payment was due January 2024. Table 4 includes details of business tax

revenues, expenses, and remaining balances as of June 30, 2025, which have been placed in the respective reserves.

Table 4:
Business Tax Revenues and Expenses
For the Year Ended June 30, 2025
(in millions)

	Housing Affordability and Services for Unhoused	Transportation and Safe Train Crossings	Public Safety	Total
Beginning Reserves (July 1, 2024)	\$ 1.1	\$ 0.8	\$ -	\$ 1.9
Revenues	1.9	1.9	1.9	5.7
Expenses	0.5	0.5	1.9	2.9
Revenues - Expenses	1.4	1.4	-	2.8
Ending Reserves (June 30, 2025)	\$ 2.5	\$ 2.2	\$ -	\$ 4.7

Administrative expenses for FY 2025 totaled \$0.7 million and were equally allocated to each spending category.

General Fund

The General Fund is the primary operating fund of the City. At the end of FY 2025, the fund balance of the General Fund is \$103.8 million, compared to \$106.7 million in the prior fiscal year. The fund balance is classified as follows:

- Non-Spendable: \$14.2 million
- Committed: \$7.2 million
- Assigned: \$29.3 million
- Unassigned: \$53.1 million

The unassigned amount is designated by the City Council for spending at the City's discretion and for other purposes.

The General Fund's fund balance decreased by \$2.9 million at the end the FY 2025. Expenditures exceeded revenues by \$1.4 million. In addition, the City entered into Lease and Subscription-Based Information Technology Arrangements (SBITA) financing of \$9.4 million. This transaction increased expenditure for the related capital assets and was offset by an equal increase in other financing sources, resulting in no net impact on fund balance. Transfers of \$29.4 million received from other funds, compared to transfers to other funds are \$40.2 million.

- Total General Fund revenues increased to \$252.2 million, an increase of \$10.1 million, or 4.2% during FY 2025. The increase is mainly due to higher collections in property taxes (\$3.1 million), TOT (\$1.2 million), UUT (\$1.4 million) documentary transfer tax (\$1.4

million), business tax (\$0.4 million), charges for services (\$2.6 million), and investment earnings (\$3.5 million). These gains were partially offset by a \$2.3 million decline in sales tax revenues and a \$1.2 million decrease across other taxes and fines, intergovernmental revenues, licenses, permits, fees, and rental income.

- Although property tax revenue increased overall, a portion of the growth was set aside in a contingency reserve for potential future ERAF (Educational Revenue Augmentation Fund) shifts, reducing the amount available for current operations.

Additional details can be found in the Government-Wide Revenue Highlights section of this MD&A.

- General Fund expenditures totaled \$253.6 million, an increase of \$26.9 million, or 11.9% from the prior fiscal year. This was primarily due to higher salaries and benefits, contract services, and direct and indirect charges. The increase in salaries and benefits reflects new positions in FY 2025, general merit and market salary rate adjustments, and higher pension and Pension Fund Trust contributions. Contract services increased due to various audit and financial services such as the citywide risk assessment, execution of FY 2024/2025 audit plan, evaluation and benchmarking, purchasing card program, Community Services department equipment and materials inventory; janitorial and landscape services, and the final disbursement of legal fees related to Green v. City of Palo Alto settlement (Santa Clara Superior Court, Case No. 1-16-CV-300760). These increases were partially offset by savings in facility and equipment repairs, and other miscellaneous contract services such as feasibility studies cost, and environmental assessments in compliance with California Environmental Quality Act (CEQA) and National Environmental Policy Act (NEPA), and costs related to the Palo Alto Link transit services. The Direct charges increased due to higher gas, electric, refuse and wastewater costs, partly offset by lower sales and absence of City Hydro expenses. The increases reflect updated rates across utilities and services. Indirect charges increased due to higher General Fund cost plan allocations, rising liability insurance costs and increased information technology and fleet maintenance costs. These increases reflect updated internal cost structures and continued support for core operational functions.

Additional details can be found in the Government-Wide Expense Highlights section of this MD&A.

Capital Projects Fund

At the end of FY 2025, the fund balance of the Capital Projects Fund is \$100.3 million, compared to \$99.2 million in the prior fiscal year, an increase of \$1.1 million. The fund balance consists of:

- Restricted for the public safety building: \$5.2 million
- Committed for Cubberley improvements: \$7.2 million
- Available for all other planned capital projects: \$87.9 million

Capital Projects Fund revenues were \$3.3 million in FY 2025, a decrease of \$1.4 million from the prior fiscal year. The decrease is mainly due to \$1.0 million grant revenue received in prior year for the Churchill Avenue/Alma Street Railroad Crossing Safety Improvements project. Net other financing sources are \$43.3 million, an increase of \$7.5 million compared to the prior fiscal year. The increase is primarily due to increase of transfers to fund various capital projects.

Capital Projects Fund expenditures were \$45.5 million in FY 2025, an increase of \$1.6 million from the prior fiscal year. These expenditures represent continued investment in major infrastructure projects such as New Public Safety Building, Street Maintenance, Roth Building Rehabilitation, Boulware Park Improvement, Sidewalk Repairs, Parking Guidance System, and Fire Station No. 4 Replacement.

Non-Major Governmental Funds

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

At the end of FY 2025, the fund balance of the Non-major Governmental Funds is \$113.5 million, compared to \$113.5 million in the prior fiscal year, a decrease of \$0.3 million. The fund balance is classified as follows:

- Non-spendable: \$2.6 million
- Restricted: \$33.7 million
- Committed: \$77.4 million
- Unassigned: (\$0.2) million

Non-major Governmental Funds revenues are \$25.3 million in FY 2025, an increase of \$3.6 million from the prior fiscal year. Overall revenues rose this year, driven by stronger performance in licenses and permits, higher investment earnings, and increased Housing In-Lieu Residential fees. The upward trend reflects ongoing development activity and favorable market conditions that boosted investment returns.

Non-major Governmental Funds expenditures are \$19.6 million in FY 2025, an increase of \$1.7 million from the prior fiscal year, primarily due to increased debt service payments for the Public Safety Building Certificates of Participation and Library Project General Obligation Bonds.

Financial Analysis of Proprietary Funds

The City's Enterprise Funds statements provide the same type of information found in the Government-Wide financial statements but in greater detail.

At the end of fiscal year, the City's Enterprise Funds reported total Net Position of \$965.1 million, an increase of \$82.6 million or 9.4%. The change in net position increased by \$27.3 million, or 49.4%. from prior fiscal year.

The changes in Net Position in the Enterprise Funds are summarized in Table 5.

Table 5:
Enterprise Funds - Changes in Net Position
For the Year Ended June 30
(in millions)

<u>Fund Name</u>	<u>2025</u>	<u>2024</u>	<u>Increase/ (Decrease)</u>
Water	\$ 7.3	\$ 0.3	\$ 7.0
Electric	49.8	42.6	7.2
Fiber Optics	1.9	2.5	(0.6)
Gas	8.5	3.5	5.0
Wastewater Collection	3.7	(1.0)	4.7
Wastewater Treatment	10.6	3.4	7.2
Refuse	(1.0)	(1.5)	0.5
Storm Drainage	2.5	2.1	0.4
Airport	(0.7)	3.4	(4.1)
Total Change in Position	<u>\$ 82.6</u>	<u>\$ 55.3</u>	<u>\$ 27.3</u>

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

- The Water Fund's change in net position increased by \$7.0 million, driven by operating revenues that outpaced the growth in expenses. Higher retail sales resulting from the FY 2025 rate increase and greater customer water consumption improved operating margins, even with the higher wholesale water rates charged by the San Francisco Public Utilities Commission (SFPUC).
- Electric Fund change in net position increased by \$7.2 million, mainly due to an overall improvement in operating income and lower non-operating costs. Revenue growth from customer sales and renewable energy credit (REC) sales offset the impact of higher commodity purchases and lower resource adequacy sales. On the non-operating side, joint agency service payments to the Northern California Power Agency (NCPA) were lower while interest income was higher, both of which strengthened the Fund's net position compared to the prior year.
- Gas Fund change in net position increased \$5.0 million due to higher operating income. Customer sales increased with the FY 2025 gas rate adjustment and commodity costs decreased due to market price declines, improving the Fund's operating margin. Additionally, interest income also increased. These positive results are partially offset by higher equity transfers to the General Fund.

- Wastewater Collection Fund change in net position increased \$4.7 million mainly due to the revenue growth which outpaced the increase in expenses. The increase in revenue results from higher customer sales due to the FY 2025 rate increase and cost-share reimbursements from Valley Water under the Guiding Principle #5 (GP5) agreement. These increases are partially offset by higher operating costs related to the City's share of the Regional Water Quality Control Plant operating costs and minor capital projects, along with lower transfers from other funds.
- Wastewater Treatment Fund change in net position increased \$7.2 million due to higher billing to partners for operating and capital costs, as well as higher billing to Valley Water. The capital costs are capitalized as assets and depreciated over their useful lives; therefore, only the current year's depreciation reduces the net position rather than the entire cost of the capital work.
- Airport Fund change in net position decreased \$4.1 million primarily due to decrease in grants revenue from the Federal Aviation Administration and State of California for various airport projects and increase in depreciation expense.

At the end of the fiscal year, the City's Internal Service Funds reported a total net position of \$163.3 million, an increase of \$17.0 million (11.6%) compared to the prior year. The overall increase in net position was driven primarily by activity in the General Benefits Fund, which experienced higher Pension Trust contributions and an increase in the fair value of investments. These increases were partially offset by the implementation of GASB No. 101, which requires increased compensated absences liabilities and resulting in a decrease in net position.

Net position for investment in capital assets is \$21.2 million, restricted for supplemental pension is \$109.9 million, and unrestricted net position is \$32.1 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual is presented as part of Financial Statements on page 37.

General Fund revenues, excluding transfers and prior year encumbrances, were originally budgeted at \$243.3 million and were revised upward by \$2.9 million to \$246.2 million. During the FY 2025 budget process, revenues are analyzed and adjusted to reflect the year-to-date receipts and economic conditions. Significant upward revisions were made to Transient Occupancy Tax (TOT) (+\$0.9 million) due to increase in the average daily room rates, Documentary Transfer Tax (+\$1.3 million) because the City prudently budgeted this unpredictable revenue source at a conservative level, Utility Users' Tax (UUT) (+\$1.5 million) primarily due to an understatement of \$1.0 million as a result of a projection miscalculation, and Intergovernmental Revenues (+\$1.5 million) from additional state and other agencies grants awarded during the fiscal year. These increases were partially offset by a \$4.0 million decrease in Sales Tax, which reflects slower taxable sales growth observed in midyear.

General Fund actual revenues of \$294.8 million, budgetary basis (including reappropriations), were within the adjusted budget of \$294.7 million. Overall, revenues remain stable and generally consistent with budget expectations, while several major revenue sources had variability and volatility.

General Fund expenditures, excluding transfers, were originally budgeted at \$268.0 million and were revised upward by \$26.7 million to \$294.7 million. A majority of this increase reflected \$17.4 million encumbrance carryforwards and reappropriations from the prior fiscal year, with the remainder consisting of budget adjustments approved by the City Council during FY 2025. The transfers out budget increased by \$3.4 million overall. This increase was attributed to the \$3.0 million transfers to the Capital Projects Fund that was approved by the City Council on December 16, 2024, as part of the FY 2024 year-end close where the City Council directed staff to transfer the amount exceeding the 18.5% Budget Stabilization Reserve (BSR) target to the Capital Projects Fund.

General Fund actual expenditures of \$327.8 million, including transfers out and encumbrances and reappropriations, are \$9.1 million lower, or 2.7% lower, than the adjusted budget of \$336.9 million which savings are realized across the departments. The largest savings were experienced in Planning and Development Services (\$1.8 million), Fire (\$1.6 million), Community Services (\$1.0 million), and Non-Departmental (\$1.3 million), primarily due to a combination of contracted services and salary and benefit costs. In addition, salary savings reflect a year-end adjustment that reduced Workers' Compensation charges to offset an increase in General Liability costs associated with projected future claims. The net effect of revenues and expenditures results in a \$9.2 million positive impact compared to budget for the fiscal year.

CAPITAL ASSETS

The City is required to record all its capital assets, including infrastructure and intangible assets. Infrastructure includes roads, bridges, signals, and similar assets used by the entire population. Table 6 below shows capital assets and the amount of accumulated depreciation for these assets for Governmental and Business-Type Activities. Additional information can be found in Note 7 to the financial statements.

Table 6:
Capital Assets as of June 30
(in millions)

	<u>2025</u>	<u>2024</u>	<u>Increase/ (Decrease)</u>
Governmental activities			
Capital Assets			
Land and improvements	\$ 82.1	\$ 82.1	\$ -
Street trees	14.9	14.8	0.1
Construction in progress	179.3	179.3	-
Building and improvements	356.3	356.3	-
Intangible assets	3.6	3.6	-
Equipment	19.8	19.3	0.5
Roadway network	381.1	359.1	22.0
Recreation and open space network	37.4	37.0	0.4
Less accumulated depreciation	(399.7)	(378.8)	(20.9)
Internal Service Funds			
Construction in progress	9.8	9.8	-
Equipment	60.8	60.3	0.5
Less accumulated depreciation	(49.3)	(47.9)	(1.4)
Amortized Assets			
Intangible assets-right to use leased assets	25.2	16.5	8.7
Intangible assets-right to use SBITA assets	6.7	4.5	2.2
Less accumulated amortization	(18.1)	(12.8)	(5.3)
Total Governmental Activities	<u>\$ 709.9</u>	<u>\$ 703.1</u>	<u>\$ 6.8</u>
Business-Type Activities			
Land	\$ 5.0	\$ 5.0	\$ -
Construction in progress	266.8	264.1	2.7
Buildings and improvements	86.6	84.9	1.7
Infrastructure	41.8	0.6	41.2
Transmission, distribution and treatment system	1,077.1	1,006.1	71.0
Less accumulated depreciation	(507.4)	(481.3)	(26.1)
Amortized intangible leased and SBITA assets	14.9	10.1	4.8
Less accumulated amortization	(5.3)	(3.9)	(1.4)
Total Business-type Activities	<u>\$ 979.5</u>	<u>\$ 885.6</u>	<u>\$ 93.9</u>

The City Council approved a \$125.8 million Infrastructure Plan (IP) in June 2014. Through the development of the 2025-2029 Capital Improvement Plan (CIP), the IP projects were updated resulting in a revised IP of \$272.8 million. These projects will be funded partially by debt to be repaid by the voter-approved increases of 3.5% in the TOT rate, TOT funding from new hotels built after January 2015 and from other sources such as impact fees, grants, Senate Bill 1 gas tax and Stanford University Medical Center development agreement monies.

Governmental Activities' capital assets totaled \$709.9 million (net of depreciation) and increased by \$6.8 million from the prior fiscal year. The increase is primarily due to the current year's acquisitions and ongoing construction on various projects – such as the Public Safety Building, Boulware Park improvement, Cubberley field restrooms, Churchill Ave/Alma St. railroad crossing improvement, Fire Station No. 4, parking guidance systems, the additions of street and park trees, and the replacement of fleet vehicles. These capital additions were partially offset by annual depreciation and amortization.

As of June 30, 2025, major Governmental Activities capital projects that are in progress, including the remaining capital commitments are listed below:

- Fire Station No. 4 Replacement - \$15.5 million
- Vehicle Replacements - \$7.5 million
- Street Maintenance - \$7.0 million
- Municipal Service Center Improvements - \$6.3 million
- New Public Safety Building - \$3.7 million
- Bicycle & Pedestrian - \$3.5 million
- Stanford Palo Alto Community Turf Replacements - \$3.4 million
- Churchill Avenue Enhance Bikeway - \$3.3 million
- Newell Road Bridge/San Francisquito Creek Bridge - \$3.2 million

Business-Type Activities' capital assets of \$ \$979.5 million (net of depreciation) increased by \$93.9 million from the prior fiscal year. The increase is primarily due to ongoing Secondary Treatment Upgrade and Electric Distribution System Improvements. The increase in Infrastructure, reflecting transfers from construction in progress to completed assets, is mainly attributed to the completion of Airport Apron Reconstruction project. The increase in Transmission, Distribution and Treatment System is mainly due to completion of Primary Sedimentation Upgrade, Wastewater Collection Rehabilitation Project 31, Gas Main Replacement (GMR) Project 24 and poles and transformers under the ongoing Grid Modernization for Electrification.

Major Business-Type Activities' capital projects that are currently in progress, including the remaining capital commitments, are as follows:

- Grid Modernization for Electrification - \$5.8 million
- Hanover Substation Expansion - \$14.3 million
- GMR – Project 25 - \$8.6 million
- Fiber-to-the-Premise - \$12.3 million

- Secondary Treatment Upgrades - \$63.3 million
- Plant Repair, Retrofit & Equipment Replacement - \$10.9 million
- Advanced Water Purification Facility - \$56.1 million

The City depreciates its capital assets over their estimated useful lives. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users.

DEBT ADMINISTRATION

Details of the City's outstanding debt are provided in Note 8 to the financial statements. The table below summarizes the City's debt position as of June 30, 2025.

Table 7: Long-Term Debt as of June 30 (in millions)				
	Projects	2025	2024	Increase/ (Decrease)
Governmental Activities				
General Long-Term Obligations				
2013A	Library	\$ 10.7	\$ 11.2	\$ (0.5)
2022 Series A	Refinanced 2010A Library	32.0	33.3	(1.3)
2022 Series B	Partially Refinanced 2013A Library	2.1	2.1	-
Certificate of Participation				-
2018 Capital Improvement Projects	Golf Course & Refinanced 2002B	7.8	8.0	(0.2)
2019 California Ave Parking Garage				-
Series A & B	California Ave Parking Garage	33.6	34.4	(0.8)
2021 Public Safety Building	Public Safety Building	97.1	99.4	(2.3)
Add: Unamortized Premium		13.8	14.4	(0.6)
Total Governmental Activities		\$ 197.1	\$ 202.8	\$ (5.7)
Business-type Activities				
Enterprise Long-Term Obligations				
Utility Revenue Bonds				
2009 Series A	Water Fund Projects	\$ 19.0	\$ 20.4	\$ (1.4)
2011 Refunding	Various Enterprise Projects	1.4	2.8	(1.4)
Add: unamortized premium		0.1	0.2	(0.1)
State Water Resources Loan				-
2007	Reclaimed Water Pipeline	1.8	2.2	(0.4)
2009	Ultraviolet Disinfection	3.0	3.5	(0.5)
2017	Bio-solid Incinerators	21.1	21.8	(0.7)
2021	Primary Sedimentation Tanks	16.7	14.0	2.7
2022	Secondary Treatment Upgrades	111.2	60.4	50.8
Total Business-type Activities		\$ 174.3	\$ 125.3	\$ 49.0

City-wide long-term debt increased by \$43.3 million mainly due to a \$53.5 million additions of State Water Resource loan, offset by scheduled debt retirement.

ECONOMIC OUTLOOK

The economic outlook for the City is discussed in the accompanying Transmittal Letter.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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CITY OF PALO ALTO
Statement of Net Position
June 30, 2025
(Amounts in thousands)

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and investments available for operations (Note 3)	\$ 352,814	\$ 277,753	\$ 630,567
Receivables, net:			
Accounts and intergovernmental	27,496	59,728	87,224
Interest receivable	2,474	1,787	4,261
Notes and loans receivable (Note 5)	60,414	-	60,414
Lease receivables (Note 6)	2,753	255	3,008
Internal balances (Note 4)	(19,808)	19,808	-
Deposits	20	-	20
Due from other government agencies	-	1,200	1,200
Inventory of materials and supplies, prepaids and deposits	8,456	512	8,968
Restricted cash and investments with fiscal agents and trustees (Note 3)	109,913	2,879	112,792
Capital assets (Note 7):			
Nondepreciable	289,734	271,785	561,519
Depreciable, net of accumulated depreciation	420,196	707,752	1,127,948
Total assets	<u>1,254,462</u>	<u>1,343,459</u>	<u>2,597,921</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Unamortized loss from refunding	-	30	30
Pension related (Note 12)	70,740	26,900	97,640
OPEB related (Note 13)	23,372	10,035	33,407
Total deferred outflows of resources	<u>94,112</u>	<u>36,965</u>	<u>131,077</u>
LIABILITIES:			
Accounts payable and accruals	13,320	31,637	44,957
Accrued salaries and benefits	5,216	2,499	7,715
Unearned revenue	5,327	1,217	6,544
Accrued compensated absences (Note 1):			
Due in one year	17,646	-	17,646
Due in more than one year	11,175	-	11,175
Claims payable (Notes 15 and 17):			
Due in one year	7,648	-	7,648
Due in more than one year	26,965	-	26,965
Landfill post-closure liability (Note 10):			
Due in more than one year	-	7,301	7,301
Net pension liabilities (Note 12):			
Due in more than one year	385,490	132,560	518,050
Net OPEB liabilities (Note 13):			
Due in more than one year	78,668	31,857	110,525
Lease liabilities (Note 6):			
Due in one year	2,959	1,181	4,140
Due in more than one year	8,284	3,920	12,204
SBITA liabilities (Note 6):			
Due in one year	1,538	452	1,990
Due in more than one year	1,339	4,360	5,699
Long-term debt (Note 8):			
Due in one year	5,985	5,034	11,019
Due in more than one year	191,076	169,316	360,392
Total liabilities	<u>762,636</u>	<u>391,334</u>	<u>1,153,970</u>
DEFERRED INFLOWS OF RESOURCES:			
OPEB related (Note 13)	4,061	1,748	5,809
Lease related (Note 6)	2,455	235	2,690
Unamortized gain from refunding	1,982	-	1,982
Total deferred inflows of resources	<u>8,498</u>	<u>1,983</u>	<u>10,481</u>
NET POSITION (Note 11):			
Net Investment in capital assets	496,767	795,304	1,292,071
Restricted for:			
Transportation mitigation	17,218	-	17,218
Public benefit	4,715	-	4,715
Supplemental pension	109,904	-	109,904
Federal and State revenue	7,610	-	7,610
Debt service	3,665	4,079	7,744
Nonexpendable - Eyerly Family	2,635	-	2,635
Others	5,720	-	5,720
Total restricted net position	<u>151,467</u>	<u>4,079</u>	<u>155,546</u>
Unrestricted (deficit)	<u>(70,794)</u>	<u>187,724</u>	<u>116,930</u>
Total net position	<u>\$ 577,440</u>	<u>\$ 987,107</u>	<u>\$ 1,564,547</u>

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Statement of Activities
For the Year Ended June 30, 2025
(Amounts in thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities:							
City Council	\$ 267	\$ -	\$ -	\$ -	\$ (267)	\$ -	\$ (267)
City Manager	3,633	-	72	-	(3,561)	-	(3,561)
City Attorney	2,911	-	-	-	(2,911)	-	(2,911)
City Clerk	811	-	-	-	(811)	-	(811)
City Auditor	787	-	-	-	(787)	-	(787)
Administrative Services	12,533	5,017	609	-	(6,907)	-	(6,907)
Human Resources	3,583	-	-	-	(3,583)	-	(3,583)
Public Works	51,930	2,034	391	1,071	(48,434)	-	(48,434)
Planning and Development Services	23,123	18,765	1,590	-	(2,768)	-	(2,768)
Office of Transportation	8,966	1,971	-	1,525	(5,470)	-	(5,470)
Police	58,867	3,155	1,004	-	(54,708)	-	(54,708)
Fire	54,578	18,319	1,761	-	(34,498)	-	(34,498)
Community Services	45,074	28,242	8	3,888	(12,936)	-	(12,936)
Library	14,721	42	-	-	(14,679)	-	(14,679)
Interest on long-term debt	6,342	-	-	-	(6,342)	-	(6,342)
Total Governmental Activities	288,126	77,545	5,435	6,484	(198,662)	-	(198,662)
Business-Type Activities:							
Water	51,698	56,508	395	333	-	5,538	5,538
Electric	179,564	238,813	88	20	-	59,357	59,357
Fiber Optics	3,648	3,816	-	-	-	168	168
Gas	41,410	59,488	-	539	-	18,617	18,617
Wastewater Collection	26,321	30,239	-	152	-	4,070	4,070
Wastewater Treatment	36,115	46,394	-	19	-	10,298	10,298
Refuse	35,242	32,475	34	-	-	(2,733)	(2,733)
Storm Drainage	7,061	8,921	-	166	-	2,026	2,026
Airport	4,254	3,372	-	87	-	(795)	(795)
Total Business-Type Activities	385,313	480,026	517	1,316	-	96,546	96,546
Total	\$ 673,439	\$ 557,571	\$ 5,952	\$ 7,800	(198,662)	96,546	(102,116)
General Revenues:							
Taxes:							
Property tax					73,727	-	73,727
Sales tax					35,219	-	35,219
Utility user tax					20,394	-	20,394
Transient occupancy tax					28,970	-	28,970
Documentary transfer tax					8,391	-	8,391
Business tax					5,691	-	5,691
Other taxes					3,875	-	3,875
Investment earnings					32,036	14,536	46,572
Miscellaneous					1,055	-	1,055
Transfers (Note 4)					24,651	(24,651)	-
Total general revenues and transfers					234,009	(10,115)	223,894
Change in net position					35,347	86,431	121,778
Net Position, beginning of year, as previously reported					551,613	900,676	1,452,289
Restatement for implementation of GASB Statement No. 101					(9,520)	-	(9,520)
Net position, beginning of year, as restated					542,093	900,676	1,442,769
Net position, end of year					\$ 577,440	\$ 987,107	\$ 1,564,547

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Governmental Funds
Balance Sheet
June 30, 2025
(Amounts in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and investments available for operations (Note 3)	\$ 76,332	\$ 106,761	\$ 56,991	\$ 240,084
Receivables, net:				
Accounts and intergovernmental, net of allowance of \$2,514	24,329	1,238	687	26,254
Interest receivable	1,293	-	386	1,679
Notes and loans receivable (Note 5)	740	-	59,674	60,414
Lease receivable (Note 6)	2,753	-	-	2,753
Deposits	15	-	5	20
Prepaid items	15	-	-	15
Due from other fund (Note 4)	501	-	-	501
Advances to other funds (Note 4)	5,099	-	-	5,099
Inventory of materials and supplies	8,355	-	-	8,355
Restricted cash and investments with fiscal agents (Note 3)	-	-	9	9
Total assets	\$ 119,432	\$ 107,999	\$ 117,752	\$ 345,183
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:				
Liabilities:				
Accounts payable and accruals	5,130	4,420	\$ 555	\$ 10,105
Accrued salaries and benefits	4,533	248	47	4,828
Unearned revenue	3,074	2,000	253	5,327
Due to other funds (Note 4)	-	-	501	501
Advances from other funds (Note 4)	-	-	2,900	2,900
Total liabilities	12,737	6,668	4,256	23,661
Deferred inflows of resources				
Unavailable revenue	459	1,049	-	1,508
Lease related (Note 6)	2,455	-	-	2,455
Total deferred inflows of resources	2,914	1,049	-	3,963
Total liabilities and deferred inflows of resources	15,651	7,717	4,256	27,624
Fund balances (Note 11):				
Nonspendable:				
Deposits	15	-	-	15
Prepaid items	15	-	-	15
Inventories	8,355	-	-	8,355
Advances to other funds	5,099	-	-	5,099
Notes and loans receivable	740	-	-	740
Eyerly family	-	-	2,635	2,635
Restricted for:				
Transportation mitigation	-	-	17,218	17,218
Federal revenue	-	-	7,610	7,610
Local law enforcement	-	-	520	520
Public safety building	-	5,200	-	5,200
Public benefit	-	-	4,715	4,715
Debt service	-	-	3,665	3,665
Committed for:				
Development services	2,468	-	-	2,468
Housing affordability	2,478	-	-	2,478
Transportation	2,230	-	-	2,230
Cubberley improvements	-	7,189	-	7,189
Developer impact fees	-	-	11,437	11,437
Housing in-lieu	-	-	65,922	65,922
Downtown business	-	-	54	54
Assigned for:				
Capital projects	-	87,893	-	87,893
Other general government purposes	15,496	-	-	15,496
Electric charger	118	-	-	118
Reappropriations	13,662	-	-	13,662
Unassigned	53,105	-	(280)	52,825
Total fund balances	103,781	100,282	113,496	317,559
Total liabilities, deferred inflows of resources, and fund balances	\$ 119,432	\$ 107,999	\$ 117,752	\$ 345,183

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Reconciliation of the Balance Sheet of Governmental Funds to
the Statement of Net Position - Governmental Activities
June 30, 2025
(Amounts in thousands)

Total fund balances reported on the governmental funds balance sheet	\$ 317,559
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Amounts reported for governmental activities in the statement of net position are different from those reported in the governmental funds balance sheet because of the following:

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

Deferred outflows of resources	94,112
Deferred inflows of resources	(6,043)

Certain receivables are not available to pay for current period expenditures and therefore are deferred in the governmental funds.	1,508
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Capital assets, including leased and SBITA assets, used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds.	709,930
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Internal service funds are used by management to charge the costs of activities such as insurance, equipment acquisition and maintenance, and certain employee benefits to individual funds. The assets and liabilities of the internal service funds are therefore included in governmental activities in the statement of net position (excludes capital assets, deferred outflows of resources, deferred inflows of resources, net pension liabilities, net OPEB and SBITA liabilities reported herein)	137,265
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Some liabilities, including bonds payable and claims payable, are not due and payable in the current period and therefore are not reported in the governmental funds:

Interest payable	(1,552)
Net pension liabilities	(385,490)
Net OPEB liabilities	(78,668)
Lease liabilities	(11,243)
SBITA liabilities	(2,877)
Long-term debt	(197,061)

Net position of governmental activities	\$ 577,440
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See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2025
(Amounts in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property tax	\$ 69,402	\$ -	\$ 4,325	\$ 73,727
Sales tax	35,219	-	-	35,219
Utility user tax	20,394	-	-	20,394
Transient occupancy tax	28,970	-	-	28,970
Documentary transfer tax	8,391	-	-	8,391
Business tax	5,691	-	-	5,691
Other taxes and fines	802	-	3,935	4,737
Charges for services	39,180	-	-	39,180
Intergovernmental	5,736	1,721	2,819	10,276
Licenses, permits and fees	10,621	-	6,814	17,435
Investment earnings	10,396	1,001	3,603	15,000
Rental income	15,732	-	-	15,732
Housing In-Lieu - residential	-	-	2,778	2,778
Other revenue	1,705	564	992	3,261
Total revenues	252,239	3,286	25,266	280,791
EXPENDITURES:				
Current:				
City Council	338	-	-	338
City Manager	3,683	-	32	3,715
City Attorney	2,946	-	-	2,946
City Clerk	892	-	-	892
City Auditor	789	-	-	789
Administrative Services	7,897	-	329	8,226
Human Resources	3,666	-	-	3,666
Public Works	18,705	-	2,238	20,943
Planning and Development Services	21,781	-	585	22,366
Office of Transportation	4,359	-	1,388	5,747
Police	57,420	-	1,816	59,236
Fire	54,500	-	-	54,500
Community Services	39,911	-	707	40,618
Library	12,447	-	-	12,447
Non-Departmental	10,989	-	365	11,354
Capital outlay	9,344	45,517	-	54,861
Debt service:				
Principal	3,736	-	5,159	8,895
Interest and fiscal charges	199	-	6,981	7,180
Total expenditures	253,602	45,517	19,600	318,719
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,363)	(42,231)	5,666	(37,928)
OTHER FINANCING SOURCES (USES):				
Lease and SBITA financing	9,344	-	-	9,344
Transfers in (Note 4)	29,369	50,710	8,487	88,566
Transfers out (Note 4)	(40,231)	(7,424)	(14,184)	(61,839)
Total other financing sources (uses)	(1,518)	43,286	(5,697)	36,071
Change in fund balances	(2,881)	1,055	(31)	(1,857)
FUND BALANCES, BEGINNING OF YEAR	106,662	99,227	113,527	319,416
FUND BALANCES, END OF YEAR	\$ 103,781	\$ 100,282	\$ 113,496	\$ 317,559

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities - Governmental Activities
For the Year Ended June 30, 2025
(Amounts in thousands)

Net change in fund balances - total governmental funds \$ (1,857)

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

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

Capital assets additions	23,195
Depreciation and amortization expense is deducted from fund balance (Amount is net of internal service fund depreciation and amortization of \$4,483), which has already been allocated through the internal service fund activities below	(24,754)
Disposal of capital assets	(181)

Pension and OPEB contribution made subsequent to the measurement date is an expenditure in the governmental funds, but reported as a deferred outflows of resources in the government-wide financial statements	56,375
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Pension and OPEB expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(60,358)
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Principal payments on long-term liabilities are reported as expenditures in governmental funds when paid. The governmental activities, however, report principal payments as a reduction of long-term debt on the statement of net position. Interest accrued on long-term debt, amortization of premium and gain from refunding, and changes in claims payable do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Therefore, the activities associated with these balances are as follows:

Principal payment for long-term debt during the year	5,075
Principal payment for leases during the year	3,542
Principal payment for SBITA during the year	278
Change in interest payable	111
Amortization of bond premium	710
Amortization of deferred inflows of resources - gain from refunding	132
Change in claims payable	9,545

Revenues earned but not available are deferred in the governmental funds but are recognized in the government-wide financial statements. Also, revenues recognized in the governmental funds during the current year that were earned and recognized in previous years in the government-wide financial statements are reported as beginning net position in the statement of activities	832
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Internal service funds are used by management to charge the costs of activities, such as insurance, equipment acquisition and maintenance, and employees benefits to individual funds. The portion of the net expense of these internal service funds arising out of their transactions with governmental funds is reported with governmental activities.

	22,702
Change in net position of governmental activities	\$ 35,347

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2025
(Amounts in thousands)

	Budgeted Amounts		Actual, Budgetary Basis	Variance with Final Budget
	Adopted	Final		
REVENUES:				
Property tax	\$ 68,623	\$ 68,319	\$ 69,402	\$ 1,083
Sales tax	39,577	35,588	35,219	(369)
Utility user tax	19,943	21,489	20,394	(1,095)
Transient occupancy tax	27,857	28,754	28,970	216
Documentary transfer tax	7,260	8,550	8,391	(159)
Business tax	4,763	5,250	5,691	442
Other taxes and fines	1,757	1,757	802	(955)
Charges for services	38,507	39,112	39,180	68
Intergovernmental	3,725	5,223	5,736	513
Licenses, permits and fees	10,813	10,877	10,654	(223)
Investment earnings	3,323	3,863	3,721	(142)
Rental income	16,367	16,367	15,750	(617)
Other revenues	781	1,010	1,705	695
	<u>243,295</u>	<u>246,158</u>	<u>245,615</u>	<u>(543)</u>
Charges to other funds and departments	15,096	15,096	15,688	592
Prior year encumbrances	16,093	33,469	33,469	-
Total revenues	<u>274,484</u>	<u>294,723</u>	<u>294,772</u>	<u>49</u>
EXPENDITURES:				
Current:				
City Council	512	551	538	13
City Manager	5,592	5,858	5,657	201
City Attorney	5,023	5,576	5,288	288
City Clerk	1,443	1,540	1,428	112
City Auditor	990	1,908	1,601	307
Administrative Services	11,967	12,267	11,634	633
Human Resources	5,509	5,997	5,614	383
Public Works	24,856	27,550	26,690	860
Planning and Development Services	24,327	29,336	27,499	1,837
Office of Transportation	4,304	4,935	4,748	187
Police	57,540	58,457	58,457	-
Fire	55,008	56,530	54,915	1,615
Community Services	41,159	42,846	41,797	1,049
Library	12,528	13,144	12,790	354
Non-Departmental	17,275	28,204	26,938	1,266
Total expenditures	<u>268,033</u>	<u>294,699</u>	<u>285,594</u>	<u>9,105</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>6,451</u>	<u>24</u>	<u>9,178</u>	<u>9,154</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	29,148	29,641	29,641	-
Transfers out	(38,840)	(42,230)	(42,230)	-
Total other financing sources (uses)	<u>(9,692)</u>	<u>(12,589)</u>	<u>(12,589)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, BUDGETARY BASIS	<u>\$ (3,241)</u>	<u>\$ (12,565)</u>	<u>(3,411)</u>	<u>\$ 9,154</u>
Adjustment to Budgetary Basis:				
Unrealized gain/loss on investments			6,534	
Changes in interfund balances			1,783	
Leases and SBITA impact			59	
Current year encumbrances and reappropriations			25,623	
Prior year encumbrances and reappropriations			(33,469)	
CHANGE IN FUND BALANCE, GAAP BASIS			<u>(2,881)</u>	
FUND BALANCE AT BEGINNING OF YEAR, GAAP BASIS			<u>106,662</u>	
FUND BALANCE AT END OF YEAR, GAAP BASIS			<u>\$ 103,781</u>	

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Proprietary Funds
Statement of Net Position
June 30, 2025
(Amounts in thousands)

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
ASSETS:				
Current assets:				
Cash and investments available for operations (Note 3)	\$ 23,789	\$ 143,064	\$ 30,023	\$ 31,395
Accounts receivable, net of allowance of \$2,505	7,920	29,366	605	4,250
Interest receivable	173	879	213	214
Lease receivables (Note 6)	-	17	-	-
Due from other government agencies	-	-	-	-
Prepaid expense	33	-	-	-
Inventory of materials and supplies	-	-	-	-
Restricted cash and investments with fiscal agents and trustees (Note 3)	2,553	-	-	326
Total current assets	34,468	173,326	30,841	36,185
Noncurrent assets:				
Due from other government agencies	-	-	-	-
Advances to other funds (Note 4)	-	-	3,000	-
Deposits	-	258	-	-
Lease receivables (Note 6)	-	92	-	-
Capital assets (Note 7):				
Nondepreciable	25,279	70,926	9,911	1,999
Depreciable, net	127,826	194,010	6,893	119,950
Total noncurrent assets	153,105	265,286	19,804	121,949
Total assets	187,573	438,612	50,645	158,134
DEFERRED OUTFLOWS OF RESOURCES:				
Unamortized loss from refunding	13	-	-	17
Pension related (Note 12)	3,090	10,066	789	3,579
OPEB related (Note 13)	1,262	3,746	-	1,589
Total deferred outflows of resources	4,365	13,812	789	5,185
LIABILITIES:				
Current liabilities:				
Accounts payable and accruals	1,755	7,599	181	2,192
Accrued salaries and benefits	294	914	58	364
Unearned revenue	-	-	-	-
Accrued compensated absences (Note 1)	-	-	-	-
Current portion of lease liabilities (Note 6)	149	290	147	120
Current portion of SBITA liabilities (Note 6)	15	354	32	16
Current portion of long term debt (Note 8)	2,172	-	-	778
Accrued claims payable (Note 15)	-	-	-	-
Total current liabilities	4,385	9,157	418	3,470
Noncurrent liabilities:				
Accrued compensated absences (Note 1)	-	-	-	-
Advance from other fund (Note 4)	-	-	-	-
Landfill post-closure liability (Note 10)	-	-	-	-
Net pension liabilities (Note 12)	16,242	44,734	3,270	17,377
Net OPEB liabilities (Note 13)	3,451	11,482	-	5,143
Lease liabilities (Note 6)	648	1,419	835	586
SBITA liabilities (Note 6)	15	4,140	94	16
Long term debt, net of unamortized discounts/premiums (Note 8)	17,707	-	-	49
Accrued claims payable (Note 15)	-	-	-	-
Total noncurrent liabilities	38,063	61,775	4,199	23,171
Total liabilities	42,448	70,932	4,617	26,641
DEFERRED INFLOWS OF RESOURCES:				
OPEB related (Note 13)	228	654	2	275
Lease related (Note 6)	-	103	-	-
Total deferred inflows of resources	228	757	2	275
NET POSITION (Note 11):				
Net Investment in capital assets	132,412	258,733	15,696	120,401
Restricted for:				
Debt service	2,553	-	-	326
Supplemental pension	-	-	-	-
Unrestricted (deficit)	14,297	122,002	31,119	15,676
Total net position	\$ 149,262	\$ 380,735	\$ 46,815	\$ 136,403

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

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental Activities - Internal Service Funds
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Non-Major Airport	Totals	
\$ 923	\$ 7,620	\$ 25,827	\$ 13,919	\$ 1,193	\$ 277,753	\$ 112,730
6,083	6,416	3,889	1,028	171	59,728	1,242
12	18	182	88	8	1,787	795
-	-	-	-	80	97	-
-	300	-	-	-	300	-
-	67	-	-	-	100	-
-	1	-	-	-	1	86
-	-	-	-	-	2,879	109,904
7,018	14,422	29,898	15,035	1,452	342,645	224,757
-	900	-	-	-	900	-
-	-	-	-	-	3,000	-
-	153	-	-	-	411	-
-	-	-	-	66	158	-
1,642	155,836	1,952	2,615	1,625	271,785	9,841
102,217	69,052	2,761	42,038	43,005	707,752	13,384
103,859	225,941	4,713	44,653	44,696	984,006	23,225
110,877	240,363	34,611	59,688	46,148	1,326,651	247,982
-	-	-	-	-	30	-
1,909	4,857	1,081	1,041	488	26,900	3,505
273	2,122	614	314	115	10,035	1,234
2,182	6,979	1,695	1,355	603	36,965	4,739
249	15,843	3,621	170	27	31,637	1,663
186	468	96	77	42	2,499	388
-	1,217	-	-	-	1,217	-
-	-	-	-	-	-	17,646
88	387	-	-	-	1,181	-
8	27	-	-	-	452	1,237
-	2,084	-	-	-	5,034	-
-	-	-	-	-	-	7,648
531	20,026	3,717	247	69	42,020	28,582
-	-	-	-	-	-	11,175
3,000	-	-	-	2,199	5,199	-
-	-	7,301	-	-	7,301	-
10,051	26,100	7,485	5,639	1,662	132,560	17,535
1,696	6,523	2,161	1,005	396	31,857	4,213
432	-	-	-	-	3,920	-
8	87	-	-	-	4,360	774
-	151,560	-	-	-	169,316	-
-	-	-	-	-	-	26,965
15,187	184,270	16,947	6,644	4,257	354,513	60,662
15,718	204,296	20,664	6,891	4,326	396,533	89,244
99	312	110	49	19	1,748	222
-	-	-	-	132	235	-
99	312	110	49	151	1,983	222
103,323	70,743	4,713	44,653	44,630	795,304	21,214
-	1,200	-	-	-	4,079	-
-	-	-	-	-	-	109,904
(6,081)	(29,209)	10,819	9,450	(2,356)	165,717	32,137
\$ 97,242	\$ 42,734	\$ 15,532	\$ 54,103	\$ 42,274	\$ 965,100	\$ 163,255
						22,007
						\$ 987,107

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2025
(Amounts in thousands)

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
OPERATING REVENUES:				
Sales to:				
Customers	\$ 51,167	\$ 178,406	\$ 2,220	\$ 55,150
City departments	2,370	6,565	1,262	973
Surplus energy	-	6,132	-	-
Service connection charges and miscellaneous	1,489	2,200	337	631
Charges for services	-	-	-	-
Other	1,482	45,510	100	2,688
Total operating revenues	56,508	238,813	3,919	59,442
OPERATING EXPENSES:				
Purchase of utilities:				
Retail purchase of utilities	27,856	105,437	-	19,159
Surplus energy	-	6,044	-	-
Administrative and general	6,689	13,530	919	6,536
Engineering (operating)	652	2,734	-	648
Resource management and energy efficiency	1,105	10,152	-	2,846
Operations and maintenance	8,615	22,213	2,232	8,116
Rent	2,244	6,813	59	558
Depreciation and amortization	3,959	9,919	571	4,069
Claims payments and changes in estimated self-insurance liability	-	-	-	-
Refund of charges for services	-	-	-	-
Employment benefits	-	-	-	-
Total operating expenses	51,120	176,842	3,781	41,932
Operating income (loss)	5,388	61,971	138	17,510
NONOPERATING REVENUES (EXPENSES):				
Investment earnings	2,009	6,179	1,993	1,608
Interest expense	(1,210)	(4,396)	(19)	(11)
Gain on disposal of capital assets	-	-	-	-
Loss on disposal of capital assets	(57)	(89)	-	(213)
Other nonoperating revenues (expenses)	395	88	(103)	46
Total nonoperating revenues (expenses)	1,137	1,782	1,871	1,430
Income (loss) before transfers and capital contributions	6,525	63,753	2,009	18,940
Capital contributions	333	20	-	539
Transfers in (Note 4)	526	2,638	47	197
Transfers out (Note 4)	(67)	(16,663)	(116)	(11,165)
Change in net position	7,317	49,748	1,940	8,511
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	141,945	330,987	44,875	127,892
RESTATEMENT FOR IMPLEMENTATION OF GASB STATEMENT NO. 101	-	-	-	-
NET POSITION, BEGINNING OF YEAR, AS RESTATED	141,945	330,987	44,875	127,892
NET POSITION, END OF YEAR	\$ 149,262	\$ 380,735	\$ 46,815	\$ 136,403

Some amounts reported for Business-type Activities in the statement of activities are different because certain

Internal Service Fund activities are included with Business-type Activities

Change in net position reported in Business-type Activities

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Non-Major	Totals	Activities- Internal Service Funds
				Airport		
\$ 26,356	\$ 29,177	\$ 29,547	\$ 8,274	\$ 2,129	\$ 382,426	\$ -
275	15,493	987	519	165	28,609	-
-	-	-	-	-	6,132	-
321	-	-	-	-	4,978	-
-	-	-	-	-	-	163,476
3,270	1,648	1,941	87	1,078	57,804	2,517
30,222	46,318	32,475	8,880	3,372	479,949	165,993
15,486	-	21,782	-	-	189,720	-
-	-	-	-	-	6,044	-
2,586	(254)	2,094	1,711	1,757	35,568	18,035
428	2,589	334	282	-	7,667	-
-	-	-	1,500	-	15,603	-
4,553	28,369	10,819	2,082	1,175	88,174	16,350
289	-	115	22	-	10,100	-
3,319	4,843	78	1,379	1,280	29,417	4,483
-	-	-	-	-	-	13,714
-	-	-	-	-	-	128
-	-	-	-	-	-	101,855
26,661	35,547	35,222	6,976	4,212	382,293	154,565
3,561	10,771	(2,747)	1,904	(840)	97,656	11,428
193	170	1,678	668	38	14,536	17,119
(100)	(685)	-	-	(54)	(6,475)	(115)
-	-	-	-	-	-	90
(10)	-	-	-	-	(369)	-
17	76	34	41	-	594	80
100	(439)	1,712	709	(16)	8,286	17,174
3,661	10,332	(1,035)	2,613	(856)	105,942	28,602
152	19	-	166	87	1,316	-
102	244	50	49	21	3,874	4,611
(213)	-	(10)	(291)	-	(28,525)	(6,687)
3,702	10,595	(995)	2,537	(748)	82,607	26,526
93,540	32,139	16,527	51,566	43,022	882,493	146,249
-	-	-	-	-	-	(9,520)
93,540	32,139	16,527	51,566	43,022	882,493	136,729
\$ 97,242	\$ 42,734	\$ 15,532	\$ 54,103	\$ 42,274	\$ 965,100	\$ 163,255

3,824
\$ 86,431

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2025
(Amounts in thousands)

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
Cash flows from operating activities:				
Cash received from customers	\$ 52,013	\$ 192,247	\$ 2,455	\$ 54,750
Cash payments to suppliers for goods and services	(41,234)	(136,003)	(1,153)	(25,719)
Cash payments to employees	(10,589)	(28,925)	(2,074)	(11,292)
Internal activity- receipts (payments) from (to) other funds	2,370	6,565	1,262	973
Other receipts	1,482	45,493	100	2,688
Net cash provided by (used in) operating activities	4,042	79,377	590	21,400
Cash flows from noncapital financing activities:				
Cash payment of loans to other funds	-	-	-	-
Operating grants and contributions	-	88	-	46
Interest subsidy received from Build America Bonds	395	-	-	-
Transfers in	526	2,638	47	197
Transfers out	(67)	(16,663)	(116)	(11,165)
Net cash provided by (used in) noncapital financing activities	854	(13,937)	(69)	(10,922)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital and right-to-use assets	(6,380)	(34,950)	(3,941)	(8,992)
Proceeds from sale of capital assets	-	-	-	-
Capital grants and contributions	333	20	-	539
Proceeds from long-term debt issuance	-	-	-	-
Principal paid on lease liabilities	(144)	(282)	(69)	(117)
Principal paid on SBITA liabilities	(12)	(356)	(29)	(13)
Principal paid on long-term debt	(2,087)	-	-	(753)
Interest paid	(1,235)	(4,396)	(19)	(42)
Cash receipt from lease activities	-	20	-	-
Net cash provided by (used in) capital and related financing activities	(9,525)	(39,944)	(4,058)	(9,378)
Cash flows from investing activities:				
Investment interest received	2,030	5,921	1,988	1,570
Net change in cash and cash equivalents	(2,599)	31,417	(1,549)	2,670
Cash and cash equivalents, beginning of year	28,941	111,647	31,572	29,051
Cash and cash equivalents, end of year	\$ 26,342	\$ 143,064	\$ 30,023	\$ 31,721
Financial statement presentation:				
Cash and investments available for operations	\$ 23,789	\$ 143,064	\$ 30,023	\$ 31,395
Restricted cash and investments with fiscal agents and trustees	2,553	-	-	326
Cash and cash equivalents, end of year	\$ 26,342	\$ 143,064	\$ 30,023	\$ 31,721
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 5,388	\$ 61,971	\$ 138	\$ 17,510
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	3,959	9,919	571	4,069
Lease revenue	-	(17)	-	-
Other nonoperating revenues (expenses)	-	-	-	-
Change in assets, deferred outflow/inflow of resources, and liabilities:				
Accounts receivable	(643)	5,509	(102)	(1,031)
Inventory of materials and supplies	-	-	-	-
Deposit	9	(255)	-	-
Deferred outflow of resources - pension plans	815	2,675	(3)	1,155
Deferred outflow of resources - OPEB	369	1,101	3	467
Accounts payable and accruals	(4,269)	2,537	(134)	1,160
Accrued salaries and benefits	29	143	14	49
Accrued compensated absences	-	-	-	-
Unearned revenue	-	-	-	-
Landfill closure and post-closure care	-	-	-	-
Accrued claims payable	-	-	-	-
Net pension liability	(873)	(1,988)	125	(1,049)
Net OPEB liability	(369)	(1,110)	-	(473)
Deferred inflow of resources - pension plans	(92)	(276)	(18)	(111)
Deferred inflow of resources - OPEB	(281)	(832)	(4)	(346)
Net cash provided by (used in) operating activities	\$ 4,042	\$ 79,377	\$ 590	\$ 21,400
Noncash capital and related financing activities:				
Lease assets and liabilities addition	\$ 885	\$ 1,938	\$ 1,051	\$ 801
SBITA assets and liabilities addition	42	110	8	44

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Non-Major		Activities- Internal Service Funds
				Airport	Totals	
\$ 23,733	\$ 25,073	\$ 29,479	\$ 8,249	\$ 2,155	\$ 390,154	\$ 169,071
(18,989)	(9,046)	(31,369)	(2,426)	(1,403)	(267,342)	(22,205)
(4,997)	(17,091)	(3,776)	(3,193)	(1,436)	(83,373)	(114,061)
275	15,493	987	519	165	28,609	(23,140)
3,270	1,648	2,112	87	43	56,923	80
3,292	16,077	(2,567)	3,236	(476)	124,971	9,745
-	(242)	-	-	(216)	(458)	-
17	76	-	41	-	268	-
-	-	-	-	-	395	-
102	244	50	49	21	3,874	4,611
(213)	-	(10)	(291)	-	(28,525)	(6,687)
(94)	78	40	(201)	(195)	(24,446)	(2,076)
(2,773)	(59,891)	-	(1,242)	(429)	(118,598)	(1,840)
-	-	-	-	-	-	90
152	319	34	166	87	1,650	-
-	53,514	-	-	-	53,514	-
(86)	(367)	-	-	-	(1,065)	-
(7)	(24)	-	-	-	(441)	(1,834)
-	(1,563)	-	-	-	(4,403)	-
(100)	(685)	-	-	(54)	(6,531)	(115)
-	-	-	-	1,074	1,094	-
(2,814)	(8,697)	34	(1,076)	678	(74,780)	(3,699)
203	162	1,670	651	30	14,225	17,117
587	7,620	(823)	2,610	37	39,970	21,087
336	-	26,650	11,309	1,156	240,662	201,547
\$ 923	\$ 7,620	\$ 25,827	\$ 13,919	\$ 1,193	\$ 280,632	\$ 222,634
\$ 923	\$ 7,620	\$ 25,827	\$ 13,919	\$ 1,193	\$ 277,753	\$ 112,730
-	-	-	-	-	2,879	109,904
\$ 923	\$ 7,620	\$ 25,827	\$ 13,919	\$ 1,193	\$ 280,632	\$ 222,634
\$ 3,561	\$ 10,771	\$ (2,747)	\$ 1,904	\$ (840)	\$ 97,656	\$ 11,428
3,319	4,843	78	1,379	1,280	29,417	4,483
-	-	-	-	(1,035)	(1,052)	-
-	-	-	-	-	-	80
(2,944)	(3,036)	(68)	(25)	26	(2,314)	3,095
-	-	-	-	-	-	33
-	(104)	-	-	-	(350)	-
707	1,628	425	488	185	8,075	859
88	606	183	90	24	2,931	365
(646)	4,831	(111)	(227)	(35)	3,106	(13,235)
27	94	18	(6)	5	373	77
-	-	-	-	-	-	1,537
-	(1,068)	-	-	-	(1,068)	-
-	-	171	-	-	171	-
-	-	-	-	-	-	2,663
(587)	(1,308)	(154)	(175)	(20)	(6,029)	(903)
(47)	(666)	(181)	(96)	(36)	(2,978)	(358)
(55)	(147)	(37)	(37)	(18)	(791)	(92)
(131)	(367)	(144)	(59)	(12)	(2,176)	(287)
\$ 3,292	\$ 16,077	\$ (2,567)	\$ 3,236	\$ (476)	\$ 124,971	\$ 9,745
\$ 590	\$ -	\$ -	\$ -	\$ -	\$ 5,265	\$ -
23	-	-	-	-	227	1,984

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Statement of Fiduciary Net Position
June 30, 2025
(Amounts in thousands)

	<u>Custodial Funds</u>
ASSETS:	
Cash and investments available for operations (Note 3)	\$ 3,840
Accounts receivable	391
Interest receivable	26
Restricted cash and investments with fiscal agents (Note 3)	<u>3,127</u>
Total assets	<u>7,384</u>
LIABILITIES:	
Accounts payable and accruals	<u>228</u>
NET POSITION:	
Restricted for:	
Governmental entities	2,106
Bondholders of special assessment bonds	<u>5,050</u>
Total net position	<u><u>\$ 7,156</u></u>

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2025
(Amounts in thousands)

	<u>Custodial Funds</u>
ADDITIONS:	
Franchise and other fees collected	\$ 1,371
Special assessments collected	2,244
Investment earnings	<u>307</u>
Total additions	<u>3,922</u>
DEDUCTIONS:	
Administrative and general	12
Distribution to governmental entities	1,223
Debt service payments	<u>2,227</u>
Total deductions	<u>3,462</u>
Changes in net position	460
NET POSITION, BEGINNING OF YEAR	<u>6,696</u>
NET POSITION, END OF YEAR	<u><u>\$ 7,156</u></u>

See accompanying notes to the basic financial statements.

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CITY OF PALO ALTO
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For the Year Ended June 30, 2025

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

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CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Reporting Entity

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

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

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

Separately issued financial statements for the Corporation may be obtained from the City of Palo Alto, Administrative Services Department, 4th Floor, 250 Hamilton Avenue, Palo Alto, CA 94301. There is no separately issued financial statements for the District.

(b) Basis of Presentation

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Presentation (Continued)

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

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

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

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

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

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

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

(c) Major Funds and Other Funds

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Major Funds and Other Funds (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Major Funds and Other Funds (Continued)

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

The City also reports the following funds:

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

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

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

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

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

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

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

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

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Major Funds and Other Funds (Continued)

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

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

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

(d) Basis of Accounting

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

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

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

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

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

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) *Cash and Cash Equivalents*

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

(f) *Investments*

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

(g) *Inventory of Materials and Supplies*

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

(h) *Prepaid items*

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

(i) *Compensated Absences*

The liability for compensated absences includes vacation, sick leave, and overtime compensation pay. The City's liability for accrued compensated absences is recorded in the General Benefits Internal Service Fund. The fund is reimbursed through payroll charges to all other funds. Vested accumulated sick pay is paid in the event of termination due to disability and, under certain conditions, is specified in employment agreements.

As discussed in note 1(n) to the financial statements, effective July 1, 2024, the City adopted GASB Statement No. 101, *Compensated Absences* (GASB 101). In accordance with GASB 101, liabilities for compensated absences are recognized for: (a) leave that is attributable to services already rendered, (b) leave that accumulates, and (c) leave that is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) *Compensated Absences (Continued)*

During the fiscal year ended June 30, 2025, changes to the compensated absences liabilities were as follows (in thousands):

Beginning balance, , as previously reported	\$ 17,764
GASB 101 implementation impact	<u>9,520</u>
Beginning balance, as restated	27,284
Current year changes	<u>1,537</u>
Ending balance	<u>\$ 28,821</u>
Current portion	<u>\$ 17,646</u>

(j) *Property Tax*

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

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

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

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

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

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Pensions and OPEB

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

(m) Rounding

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

(n) Effects of New Pronouncements

As of July 1, 2024, the City implemented the following GASB Statements:

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. As of July 1, 2024, the City restated its net position to record the changes in compensated absences liabilities as follows:

	Net Position, Beginning Of Year		
	GASB 101		
	As Previously Reported	Implementation Impact	As Restated
Governmental Activities	\$ 551,613	\$ (9,520)	\$ 542,093
General Benefits Internal Service Fund	95,465	(9,520)	85,945

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Effects of New Pronouncements (Continued)

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this statement is to provide information to users of government financial statements about risks that could impact a government's financial health. The statement aims to improve the consistency and transparency of how governments disclose information about risk financing and insurance-related transactions. Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2025.

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

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The requirements of this statement are effective for the City's fiscal year ending June 30, 2026.

In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this statement is to establish requirements for certain types of capital assets to be disclosed separately for purposes of note disclosures, and to establish requirements for capital assets held for sale and note disclosures for those capital assets. The requirements of this statement are effective for the City's financial statements for the year ending June 30, 2026.

(o) Use of Estimates

The accompanying basic financial statements have been prepared on the modified accrual and accrual basis of accounting in accordance with U.S. GAAP. This requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

Below are several key components of the City's budgeting process and budgetary accounting policies:

1. The City Manager submits proposed operating and capital budgets to the City Council for the fiscal year commencing the following July 1. The budget includes planned expenditures and the means of financing them.
2. Public hearings are conducted to obtain comments on the proposed budgets.
3. The budget is approved with the adoption of a budget ordinance for all funds except Custodial Funds.
4. Per the Palo Alto Municipal Code, only the City Manager is authorized to reallocate funds from contingency accounts maintained in the General Fund. Amendments to appropriations to departments in the General Fund, to total appropriations for all other budgeted funds, or to transfer of appropriations between funds, require approval by the City Council. Amendments to budgeted revenue and expenditures are added to or subtracted from the Adopted Budget and the resulting totals are reflected as Final Budget amounts.
5. As defined in the Palo Alto Municipal Code, expenditures may not exceed budgeted appropriations at the department level for the General Fund, and at the fund level for Enterprise, Internal Service, Special Revenue, and Debt Service Funds.
6. Budgets for governmental funds are adopted on a basis consistent with U.S. GAAP, except unrealized gains or losses on investments, changes in interfund balances and notes receivable, leases and interest, and subscription-based information technology arrangements and interest, which are not recognized on a budgetary basis, and encumbrances are treated as budgetary expenditures when incurred.
7. Expenditures for the Capital Projects Fund are budgeted and maintained at a project level for the life of the project. Budget to actual comparisons for these expenditures have been excluded from the accompanying financial statements.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 3 – CASH AND INVESTMENTS

The City pools cash from all sources and all funds, except restricted bond proceeds with fiscal agents and Public Agency Retirement Services, and invests its pooled idle cash in accordance with State of California law (the California Government Code (Code)) and the City's Investment Policy. The basic principles underlying the City's investment philosophy are to ensure the safety of public funds, ensure that sufficient funds are available to meet current expenditures, and achieve a reasonable rate of return on investments.

Policies

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to increase security, the City employs the trust department of a bank as the custodian of certain City managed investments.

Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or agreements (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash and investments:				
Available for operations	\$ 352,814	\$ 277,753	\$ 3,840	\$ 634,407
With fiscal agents and trustees	109,913	2,879	3,127	115,919
Total cash and investments	<u>\$ 462,727</u>	<u>\$ 280,632</u>	<u>\$ 6,967</u>	<u>\$ 750,326</u>

The City's cash and investments are as follows:

Cash overdraft	\$ (3,052)
Investments	<u>753,378</u>
Total cash and investments	<u>\$ 750,326</u>

Investments Authorized by the City's Investment Policy, Debt Agreements and Trust Agreements

The table below summarizes the investment types that are authorized by the Code and the City's Investment Policy, and includes the interest rate risk, credit risk and concentration of credit risk as outlined in the Investment Policy. In addition, the table discloses investment of debt proceeds held by bond trustees. These investments are governed by the provisions of each debt agreement of the City, rather than the general provisions of the Code and the City's Investment Policy.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 3 – CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Government Securities	10 years (*)	N/A	No Limit	No Limit
U.S. Federal Agency Securities (C)	10 years (*)	N/A	No Limit (A)	No Limit
Certificates of Deposit	10 years (*)	N/A	20%	10% of the par value of portfolio
Bankers Acceptances	180 days (D)	N/A (D)	30%	\$5 million
Commercial Paper	270 days	A-1	15%	\$3 million (B)
Local Agency Investment Fund	N/A	N/A	No Limit	\$75 million per account
Short-Term Repurchase Agreements	1 year	N/A	No Limit	No Limit
City of Palo Alto Bonds	N/A	N/A	No Limit	No Limit
Money Market Mutual Funds	N/A	N/A (E)	No Limit	No Limit
Mutual Funds (F)	N/A	N/A	20%	10%
Negotiable Certificates of Deposit	10 years (*)	N/A	10%	\$5 million
Medium-Term Corporate Notes	5 years	AA	10%	\$5 million
California State and Municipal and other 49 State Issued Bonds	10 years (*)	AA/AA2	40%	No Limit
Supranational	5 years	AA/AA2	20%	10% of the par value of portfolio

(A) Callable and multi-step securities are limited to no more than 25% of the par value of the portfolio, provided that: 1) the potential call dates are known at the time of purchase, 2) the interest rates at which they "step-up" are known at the time of purchase, and 3) the entire face value of the security is redeemable at the call date.

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

Debt Agreements:

(C) Utility Revenue Bonds 2011 Refunding and 1999 Refunding allow general obligations of states with a minimum credit quality rating of A2/A by Moody's and Standard & Poor's.

(D) Utility Revenue Bonds 2011 Refunding and 1999 Refunding require a minimum credit quality rating of A-1/P-1 by Moody's and Standard & Poor's and maturing after no more than 360 days.

(E) Water Revenue Bonds 2009 Series A, Utility Revenue Bonds 2011 Refunding and 1999 Refunding require a minimum credit quality rating of AAAM or AAAM-G by Standard & Poor's.

(F) Utility Revenue Bonds 2011 Refunding and General Obligation Bonds 2013A and 2022A&B are allowed to invest in the California Asset Management Program.

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

The City must maintain required amounts of cash and investments with trustees under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the City fails to meet its obligations under these debt issues. The Code requires these funds to be invested in accordance with City ordinance, bond indentures or state statute. All of these funds have been invested as permitted under the Code and the investment policy approved by the City Council.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 3 – CASH AND INVESTMENTS (Continued)

The City has implemented investment guidelines for its Public Agencies Retirement Services (PARS) Trust which authorizes the investments in U.S. Treasury securities, federal agencies and U.S. guaranteed obligations, corporate notes, certificates of deposit, bankers' acceptances, equities investments, and mutual funds.

Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. All of the investments are measured using level 2 inputs, except for investments in money market mutual funds, equity mutual funds, California Asset Management Program, and Local Agency Investment Fund, which are not subject to the fair value hierarchy.

U.S Treasury securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Investment securities classified in Level 2 of the fair value hierarchy are valued using prices determined by the use of matrix pricing techniques maintained by the pricing vendors for these securities. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices.

The following is a summary of the fair value measurements of the City as of June 30, 2025 (in thousands):

Type of Investment	June 30, 2025	Level 1	Level 2
Investments by fair value hierarchy			
U.S. Federal Agency Securities	\$ 193,755	\$ -	\$ 193,755
U.S. Treasury Notes	4,383	4,383	-
Local Government Bonds	226,209	-	226,209
Corporate Bonds	30,862	-	30,862
Negotiable Certificates of Deposit	27,323	-	27,323
Supranational Bonds	70,100	-	70,100
Total investments by fair value hierarchy	552,632	\$ 4,383	\$ 548,249
Investment not subject to fair value hierarchy			
Money Market Mutual Funds	15,047		
Equity Mutual Funds (Irrevocable for Pension)	109,904		
California Asset Management Program	3,126		
Local Agency Investment Fund	72,669		
Total investments not subject to fair value hierarchy	200,746		
Total investments measured at fair value	\$ 753,378		

Local Agency Investment Fund

The City participates in the Local Agency Investment Fund (LAIF) which, under the oversight of the Treasury of the State of California, is regulated by California Government Code Section 16429. LAIF management calculates the fair value and cost of the entire LAIF pool. The City adjusts its cost basis invested in LAIF to fair value based on this ratio. The fair value of the City's position in the pool is the same as the value of the pool share. The balance available for withdrawal on demand is based on

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 3 – CASH AND INVESTMENTS (Continued)

accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is part of the State's Pooled Money Investment Account (PMIA). The total balance of the PMIA is approximately \$178.1 billion as of June 30, 2025. Of that amount, 96.2% was invested in nonderivative financial products and 3.8% in structured notes and asset backed securities. At June 30, 2025, LAIF had a weighted average maturity of 248 days.

Money Market Mutual Funds

Money market mutual funds are available for withdrawal on demand and at June 30, 2025, had a weighted average maturity of 31 days.

California Asset Management Program

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The City's investments are limited to investments permitted by subdivisions (a) to (n), inclusive of Section 53601 of the California Government Code. The City reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2025, the fair value approximated the City's cost. CAMP had a weighted average maturity of 41 days at June 30, 2025.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. As of June 30, 2025, the City's investments consisted of the following (in thousands):

Type of Investment	Maturities				Total
	Less Than One Year	One to Three Years	Three to Five Years	Over Five Years	
U.S. Federal Agency Securities	\$ 65,507	\$ 19,955	\$ 20,330	\$ 87,963	\$ 193,755
U.S. Treasury Notes	2,936	1,447	-	-	4,383
Local Government Bonds	34,023	79,072	50,317	62,797	226,209
Corporate Bonds	8,920	17,027	4,915	-	30,862
Money Market Mutual Funds	15,047	-	-	-	15,047
Equity Mutual Funds					
(Irrevocable for Pension)	109,904	-	-	-	109,904
Negotiable Certificates of Deposit	7,861	12,764	5,990	708	27,323
California Asset Management Program	3,126	-	-	-	3,126
Supranational Bonds	32,363	10,141	27,596	-	70,100
Local Agency Investment Fund	72,669	-	-	-	72,669
Total Investments	<u>\$ 352,356</u>	<u>\$ 140,406</u>	<u>\$ 109,148</u>	<u>\$ 151,468</u>	<u>\$ 753,378</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 3 – CASH AND INVESTMENTS (Continued)

Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

At June 30, 2025, the City's investments include U.S. Federal Agency Callable Securities totaling \$148.6 million. These investments are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above) and are subject to early redemption.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the actual rating as provided by Standard & Poor's, Moody's and/or Fitch's investment rating system as of June 30, 2025, for each investment type (in thousands):

Type of Investment	Rating	Total
U.S. Federal Agency Securities	AA+	\$ 193,755
Corporate Bonds	AAA	18,298
	AA+	9,506
	AA-	3,058
Total Corporate Bonds		30,862
Local Government Bonds	AAA	63,777
	AA+	89,097
	AA	60,274
	AA-	11,109
	A	1,952
Total Government Bonds		226,209
Supranational Bonds	AAA	70,100
Money Market Mutual Funds	AAA	12,157
	AA+	2,890
Total Money Market Mutual Funds		15,047
Subtotal rated investments		535,973
Not Applicable:		
U.S. Treasury Notes		4,383
Not Rated:		
California Asset Management Program		3,126
Local Agency Investment Fund		72,669
Negotiable Certificates of Deposit		27,323
Equity Mutual Funds (Irrevocable for Pension)		109,904
Total Investments		\$ 753,378

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 3 – CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total City portfolio investments are as follows at June 30, 2025 (in thousands):

Investments	Reporting Type	Fair Value at Year-End
Federal Home Loan Bank	U.S. Federal Agency Securities	\$ 58,294
International Bank for Reconstruction and Development	Supranational Securities	42,031
Federal Agricultural Mortgage Corporation	U.S. Federal Agency Securities	41,548
Federal Home Loan Mortgage Corporation	U.S. Federal Agency Securities	41,167

Custodial Credit Risk

California law requires banks and savings and loan institutions to pledge government securities with a fair value of 110% of the City's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law, this collateral is considered held in the City's name and places the City ahead of general creditors of the institution. The City has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City be conducted on a delivery-versus-payment basis. Securities are to be held by a third-party custodian.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 4 – INTERFUND TRANSACTIONS

Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to subsidize a fund. Less often, a transfer may be made to open or close a fund. Transfers between City funds during fiscal year 2024 were as follows on the following page (in thousands):

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
General Fund	Nonmajor Governmental Funds	\$ 466 A
	Electric Services Fund	15,985 B
	Gas Services Fund	10,918 B
	Internal Service Funds	2,000 G
		<u>29,369</u>
Capital Projects Fund	General Fund	35,901 C
	Nonmajor Governmental Funds	13,677 C
	Water Services Fund	57 C
	Electric Services Fund	653 C
	Fiber Optics Fund	12 C
	Gas Services Fund	61 C
	Wastewater Collection Fund	32 C
	Refuse Fund	10 C
	Internal Service Funds	307 C
		<u>50,710</u>
Nonmajor Governmental Funds	General Fund	1,011 A
	Capital Projects Fund	7,374 A
	Water Services Fund	10 A
	Electric Services Fund	25 A
	Fiber Optics Fund	2 A
	Gas Services Fund	10 A
	Wastewater Collection Fund	5 A
	Internal Service Funds	50 A
		<u>8,487</u>
Water Services Fund	Gas Services Fund	176 C
	Internal Service Funds	174 E, G
	Wastewater Collection Fund	176 C
		<u>526</u>
Electric Services Fund	General Fund	2,007 D
	Fiber Optics Fund	102 C
	Internal Service Funds	529 G
		<u>2,638</u>
Gas Services Fund	Internal Service Funds	197 G
Refuse Fund	Internal Service Funds	50 G
Storm Drain	Internal Service Funds	49 G
Wastewater Collection	Internal Service Funds	102 G
Wastewater Treatment	Internal Service Funds	244 G
Fiber Optics Fund	Internal Service Funds	47 G
Airport Fund	Internal Service Funds	21 G
Internal Service Funds	General Fund	1,312 E
	Capital Projects Fund	50 E/F
	Nonmajor Governmental Funds	41 E
	Storm Drainage Services Fund	291 E
	Internal Service Funds	2,917 F/G
		<u>4,611</u>
	Total	<u>\$ 97,051</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 4 – INTERFUND TRANSACTIONS (Continued)

The reasons for these transfers are set forth below:

- (A) Transfer to fund street maintenance activities, pay debt service, fund City employee parking, and fund administrative costs.
- (B) Transfer to fund the return of initial investment made by general fund when utility department was created.
- (C) Transfers of funds to construct, purchase or maintain capital assets.
- (D) Transfer to fund electric costs associated with streetlights and traffic signals.
- (E) Transfer to fund replacement and maintenance of critical desktop, software, infrastructure, vehicles and equipment.
- (F) Transfer to fund for retiree healthcare.
- (G) Transfer to return accumulated savings from the General Benefits Internal Service Fund to support critical investments and priority projects across the City

Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2025, the non-major Street Improvement and Asset Seizure Special Revenue Funds owed the General Fund a total of \$501,000.

Long-Term Interfund Advance

On December 6, 2010, the City Council accepted an Airport Business Plan of the Palo Alto Airport (PAO) and approved creation of the Airport Enterprise Fund to facilitate the transition of PAO control from the County of Santa Clara to the City. The City Council approved six separate general fund advances to the non-major Airport Enterprise Fund. All advances bear interest equal to the average return yield on the City's investment portfolio. The six separate advances and interest incurred have been consolidated and are scheduled to be repaid by June 2034. At June 30, 2025, the outstanding advances were \$2.2 million.

The City Council approved interfund loan from General Fund to non-major Special Districts Fund - California Avenue Parking through the adoption of fiscal year 2024 budget (\$450,000) and 2025 budget (\$800,000). This loan bears interest equal to the quarterly average yield plus 0.25% on the City's investment portfolio and is scheduled to be repaid by July 2033. At June 30, 2025, the outstanding loan was \$1,250,000.

The City Council approved interfund loan in the amount of \$700,000 from General Fund to non-major Special Districts Fund – University Avenue Parking through the adoption of fiscal year 2025 budget. This loan bears interest equal to the quarterly average yield plus 0.25% on the City's investment portfolio and is scheduled to be repaid by July 2034. At June 30, 2025, the outstanding loan was \$700,000.

The City Council approved interfund loan from General Fund to non-major Special Districts Fund - Residential Parking Permit through the adoption of fiscal years 2023 budget (\$400,000), 2024 budget (\$50,000), and 2025 budget (\$500,000). The loans bear interest equal to the quarterly average yield plus 0.25% on the City's investment portfolio. The loans are scheduled to be repaid by July 2032 (\$400,000), July 2033 (\$50,000) and July 2034 (\$500,000). At June 30, 2025, the outstanding loans were \$950,000.

On June 17, 2024, the City Council approved a \$3.0 million loan from Fiber Optics Fund to Wastewater Collection Services Fund. This loan bears interest equal to the quarterly average yield plus 0.25% on the City's investment portfolio and is scheduled to be repaid by June 2026. At June 30, 2025, the outstanding loan was \$3.0 million.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 4 – INTERFUND TRANSACTIONS (Continued)

Internal Balances

Internal balances include the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

NOTE 5 – NOTES AND LOANS RECEIVABLE

At June 30, 2025, the City's notes and loans receivable totaled (in thousands):

Palo Alto Housing Corporation:		
Tree House Apartments	\$	5,344
Emerson Street Project		375
Alma Single Room Occupancy Development		2,222
Barker Hotel		2,111
Sheridan Apartments		2,222
Oak Court Apartments, L.P.		7,834
El Dorado Palace, LLC		150
Mid-Peninsula Housing Coalition:		
Palo Alto Gardens Apartments		100
Community Working Group, Inc.		1,280
Opportunity Center Associates, L.P.		945
Home Rehabilitation Loans		47
Executive Relocation Assistance Loans		740
Below Market Rate Assessment Loans		53
Oak Manor Townhouse Water System		114
Lytton Gardens Assisted Living		101
Emergency Housing Consortium		75
Alma Gardens Apartments		1,432
2811-2825 Alma Street Acquisition		1,890
Palo Alto Family Housing, 801 Alma Street		6,422
Palo Alto Senior Housing Project - Stevenson House, LP		842
MP Palo Alto Garden, LLC		671
Colorado Park Housing Corporation		204
Buena Vista Mobile Home Park – Santa Clara County		14,500
Wilton Court Apartments		18,752
Mitchell Park, LP		3,000
Mercy Home Loan - 231 Grant Avenue		3,000
Fabian Way Associates, LP		600
Total Notes and Loans Receivable		75,026
Less: Valuation Allowance		(14,612)
Total Notes and Loans Receivable, Net	\$	60,414

Housing Loans

The City engages in programs designed to encourage construction or improvement in low-to-moderate income housing or other projects. Under these programs, grants or loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the City's terms.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Some of these loans contain forgiveness clauses that provide for the amount loaned to be forgiven if the third party maintains compliance with the terms of the loan and associated regulatory agreements. Since some of these loans are secured by trust deeds that are subordinated to other debt on the associated projects or are only repayable from residual cash receipts on the projects, collectability of some of the outstanding balances may not be realized. As a result of the forgiveness clauses and nature of these housing projects and associated cash flows, a portion of the outstanding balances of the loans has been offset by a valuation allowance.

Tree House Apartments

In March 2009, the City agreed to loan \$2.8 million to Tree House Apartments, L.P. (THA) for the purchase of the real property located at 488 West Charleston Road. The loan accrues simple interest at the rate of 3% per annum. The loan was funded with \$1.8 million of Community Development Block Grant (CDBG) funds and \$1.0 million of residential housing funds. An additional development loan in the amount of \$2.5 million was approved by the City on October 18, 2010. Principal and interest payments will be deferred, however if the borrower has earned extra income, and if it is acceptable to the other entities providing final permanent sources of funds, payment of interest and principal based on the City's proportionate share of the project's residual receipts from net operating income shall be made by the borrower. In no event shall full payment be made by the borrower later than concurrently with the expiration or earlier termination of the loan agreement, which is December 31, 2067.

Emerson Street Project

On November 8, 1994, the City loaned \$375,000 to Palo Alto Housing Corporation (PAHC) for expenses necessary to acquire an apartment complex for the preservation of rental housing for low and very low-income households in the City. This loan is collateralized by a second deed of trust. The loan bears interest at 3%.

Alma Single Room Occupancy Development

On December 13, 1996, the City loaned \$2.2 million to Alma Place Associates, L.P. for development of a 107-unit single room occupancy development. This loan bears interest at 3% and is collateralized by a subordinated deed of trust. The principal balance is due in 2041.

Barker Hotel

On April 12, 1994, the City loaned a total of \$2.1 million for the preservation, rehabilitation and expansion of a low-income, single occupancy hotel. This loan was funded by three sources: \$400,000 from the Housing In-Lieu funds, \$1.0 million from HOME Investment Partnership Program funds, and \$670,000 from CDBG funds. All three notes bear no interest and are collateralized by a deed of trust, which is subordinated to private financing. Loan repayments are deferred until 2035.

In July 2004, the City agreed to loan up to \$41,000 to PAHC to rehabilitate the interior of the Barker Hotel. The loan was funded with CDBG funds and is collateralized by a deed of trust on the property. Annual loan payments are deferred until certain criteria defined in the loan agreement are reached. The loan will be forgiven if the borrower satisfactorily complies with all terms and conditions of the loan agreement.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Sheridan Apartments

On December 8, 1998, the City loaned \$2.2 million to PAHC for the purchase and rehabilitation of a 57-unit apartment complex to be used for senior and low-income housing (Sheridan Apartments). The loan was funded with \$1.6 million in CDBG funds, and \$825,000 of Housing In-Lieu funds. The note is collateralized by a second deed of trust and an affordability reserve account held by PAHC. The loan was amended in June 2017. It will not accrue interest between May 1, 2017 and March 1, 2030. The loan will be forgiven on June 30, 2030 if PAHC uses the funds that would otherwise have been due to the City for another affordable housing project.

Oak Court Apartments, L.P.

On August 18, 2003, the City loaned \$5.9 million to PAHC for the purchase of land. The note bears interest of 5% and is secured by a deed of trust. Note payments are due annually after 55 years, or beginning in 2058, unless PAHC elects to extend the note until 2102, as defined in the regulatory agreement. The City also loaned \$1.9 million to Oak Court Apartments, L.P. for the construction of a 53-unit rental apartment complex for low and very low-income households with children, which was completed in April 2005. The note bears no interest until certain criteria defined in the note are satisfied, at which time the note will bear an interest rate not to exceed 3%. The note is secured by a subordinate deed of trust. The principal balance is due in 2060.

El Dorado Palace, LLC

On June 22, 2015, the City approved a loan to PAHC in the amount of \$375,000 to increase the supply of affordable low-income housing in the City. The City loaned \$52,000 and \$13,000 in June 2017 and March 2018, respectively. In February 2019, the City loaned an additional \$85,000. The loan bears 3% interest, however in the event of default will accrue at the lesser of 8% or the highest rate permitted by law. The term of the loan shall expire 55 years unless the City agree to extend an additional 44 years.

Palo Alto Gardens Apartments

On April 22, 1999, the City loaned \$1.0 million to Mid-Peninsula Housing Coalition (the Coalition) for the purchase and rehabilitation of a 155-unit complex for the continuation of low-income housing. The loan was funded with \$659,000 of CDBG funds and \$341,000 of Housing In-Lieu funds. The two notes bear interest at 3% and are secured by second deeds of trust and a City Affordability Reserve Account held by the Coalition. The remaining principal balance is due in 2039.

Community Working Group, Inc.

On May 13, 2002, the City loaned \$1.3 million to Community Working Group, Inc. for predevelopment, relocation and acquisition of land for development of an 89-unit complex and homeless service center for very low-income households. The loan was funded with \$1.3 million of CDBG funds. The note bears no interest and is secured by a first deed of trust. No repayment is required as long as the borrower complies with all terms and conditions of the agreement. After 89 years of compliance with the regulatory agreement, the City's loan would convert to a grant and its deed of trust would be re-conveyed.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Opportunity Center Associates, L.P.

On July 19, 2004, the City loaned \$750,000 for a 55-year term to Opportunity Center Associates, L.P. for construction of 89 units of rental housing for extremely low-income and very low-income households. The loan was funded with \$750,000 of residential housing funds. The note bears 3% interest and is secured by a deed of trust. The loan remains outstanding and becomes due at the end of the 55-year term. During fiscal year 2019, the City received \$25,000 in principal payments. On April 17, 2019, the City approved an additional \$220,000 loan drawn from CDBG for the improvement of rental housing. In February 2019 and April 2019, the City loaned \$191,000 and \$29,000, respectively. The note bears 3% interest, and all payments of interest and principal shall be deferred until July 19, 2103.

Home Rehabilitation Loans

The City administers a closed housing rehabilitation loan program initially funded with CDBG funds. Under this program, individuals with incomes below a certain level are eligible to receive low interest loans for rehabilitation work on their homes. These loans are secured by deeds of trust, which may be subordinated to subsequent encumbrances upon said real property with the prior written consent of the City. The loan repayments may be amortized over the life of the loans, deferred, or a combination of both.

Executive Relocation Assistance Loans

The City Council may authorize a mortgage loan as part of a relocation assistance package to executive staff. The loans are secured by first deeds of trust, and interest is adjusted annually based on the rate of return of invested funds of the City for the year ended June 30 plus one-quarter of a percent. Principal and interest payments are due monthly. Employees must pay any outstanding balance on their loans within a certain period after ending employment with the City. During the year ended June 30, 2020, the City entered into a 30-year loan with the City Manager for \$845,000. The purchase cost for the City Manager's home was \$3.4 million and the City holds 75% equity share. During the year ended June 30, 2021, the City Manager paid \$21,000 for capital improvements and \$100,000 to the City to exercise a one-time option to purchase a portion of the City's equity share which decreased to 71.43%. As of June 30, 2025, the outstanding balance was \$740,000.

Below Market Rate Assessment Loans

In December 2002, the City loaned \$53,000 to below market rate homeowners with low incomes and/or very limited assets for capital repairs, special assessments and improvements of their properties. The loans bear interest at 3% and are secured by a deed of trust on each property. Loan payments are deferred until 2032.

Oak Manor Townhouse Water System

On May 12, 2003, the City Council approved an allocation of \$114,000 to Palo Alto Housing Corporation Apartments, Inc. (PAHCA) to replace the water pipes. Repayment of the loan will not be required unless the property is sold, the program is terminated, or purpose of the program is changed without City's approval prior to July 1, 2033. The loan for this project is subordinated to the existing City loan with PAHCA dated January 7, 1991, for the acquisition of the project site, which is discussed earlier in this section.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Lytton Gardens Assisted Living

In June 2005, the City loaned \$101,000 to Community Housing, Inc. to upgrade and modernize the existing kitchens at the senior residential facility known as Lytton Gardens Assisted Living. The loan was funded with CDBG funds and bears simple interest of 3%. Principal and interest payments are deferred until July 1, 2035, as long as the borrower continues to comply with all terms and conditions of the agreement.

Emergency Housing Consortium

In November 2005, the City agreed to loan up to \$75,000 to Emergency Housing Consortium to cover architectural expenses that will be incurred in rehabilitating and expanding the property. The loan was funded with CDBG funds and bears simple interest of 3%. Principal and interest payments are deferred until July 1, 2035, as long as the borrower continues to comply with all terms and conditions of the agreement.

Alma Garden Apartments

In March 2006, the City agreed to loan up to \$1.2 million to Community Working Group, Inc. to acquire a 10-unit multi-family housing complex known as Alma Garden Apartments. The loan was funded with CDBG funds. Principal and interest payments are deferred until July 1, 2061 as long as the borrower complies with all terms and conditions of the agreement. In January 2025, the City agreed to loan up to \$0.4 million and disbursed \$0.3 million to Community Working Group, Inc. doing business as Alma Garden, LLC to support improvements for the development. The loan was funded with CDBG funds and bears simple interest of 3%. The 2025 loan includes a provision for full forgiveness at the end of the term if the borrower complies with all affordability requirements to the property through the maturity date.

2811-2825 Alma Street Acquisition

On October 9, 2011, the City agreed to loan \$1.3 million to PAHC to acquire properties on Alma Street for the purpose of developing an affordable rental housing project. On June 29, 2015, the City loaned PAHC an additional \$0.6 million, and entered into an Amended and Restated Acquisition and Development Agreement which combined the two loans for a total loan of \$1.9 million. The loan term expires on December 8, 2066, with an option to extend the term for an additional 44 years. The loan bears simple interest of 3%, however in the event of default interest will accrue at the lesser of 8% or the highest rate permitted by law. Principal and interest payments are payable during the term of the agreement on a “residual receipt” basis as described in the agreement. All principal and interest is due in the event of an unauthorized transfer, a default or the expiration of the term.

Palo Alto Family Housing, 801 Alma Street

On February 14, 2011, the City agreed to loan Palo Alto Family, LP up to \$9.3 million for the purposes of predevelopment expenses and acquiring certain real property for the Alma Street Affordable Multi-Family Rental Housing Project. The loan bears simple interest of 3%. Principal and interest are due and payable during the term of the agreement on a “residual receipt” basis as described in the agreement. Except in the case of default, all remaining principal and interest shall be payable on the Restriction Termination Date as defined in the agreement.

Palo Alto Senior Housing Project – Stevenson House, LP

On October 1, 2015, the City entered into an affordable housing fund loan agreement with PASHPI Stevenson House LP, a California limited partnership, in the principal amount of \$1 million to assist in the rehabilitation of the Stevenson House. The loan bears simple interest of 3% and is due at the end of the 55-year term. As of June 30, 2025, the outstanding balance was \$842,000.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

MP Palo Alto Garden, LLC

The City loaned \$619,000 and \$52,000 in March 2017 and October 2017, respectively, in CDBG funds for the rehabilitation of the property. The note bears 3% simple interest and shall be deferred until April 24, 2054. If there are no Events of Default prior to the end of the terms, the unpaid principal and interest will be treated as a grant and no repayment will be due to the City.

Colorado Park Housing Corporation

On September 8, 2014, the City entered into an affordable housing fund loan agreement with Colorado Park Housing Corporation (CPHC), a California nonprofit public benefit corporation, in the principal amount of \$204,000. The loan bears no interest except in the event of default. The principal and any accrued interest is due and payable on the earlier of (a) expiration of the term, or (b) a default by CPHC which has not been cured as provided for in the agreement.

Buena Vista Mobile Home Park – Santa Clara County

In September 2017, the City entered into an agreement with the Santa Clara County Housing Authority (SCCHA) for the acquisition of Buena Vista Mobile Home Park. The City loaned SCCHA \$14.5 million for the acquisition. The City is entitled to 26% of all residual receipts. Interest for the promissory note is 3% simple interest. Principal and interest payments commenced on September 30, 2019, and the note and all interest is payable in full on September 29, 2092.

Wilton Court Apartments

In October 2020, the City entered into a predevelopment and construction loan agreement with Wilton ECR L.P. to construct approximately fifty-nine (59) residential rental units on property located at 3703-3709 El Camino Real with the City. Fifty-eight (58) would be affordable to low, very low, and extremely low-income households earning between 30% to 60% of area median income as determined by the United States Department of Housing and Urban Development (HUD), of which twenty-one (21) of the units will be designated for persons with developmental disabilities. The City entered into a loan agreement with Wilton ECR L.P. in the amount of \$18.8 million. The loan bear interest rate of 0% until the date of the permanent closing and 3% commencing the date of the permanent closing. The loan matures on December 31, 2077.

Mitchell Park, LP

On January 1, 2024, the City entered into a development loan agreement with Mitchell Park, L.P. to support the development of a multifamily residential project aimed at increasing the supply of affordable rental housing in the City. This project will feature ground-floor commercial space and fifty (50) housing units, including one (1) manager's unit, located at 525 E. Charleston Road. The total loan amount is \$3.0 million, of which \$1.5 million is grant funding received from the California Department of Housing and Community Development (HCD) through the Local Housing Trust Fund Program (LHTFP). Under the LHTFP, HCD provides matching grant funds on a dollar-for-dollar basis for amounts loaned to eligible housing projects. The City matched this funding with an additional \$1.5 million from Housing In-Lieu funds. The loan is secured by a deed of trust and will accrue simple interest on the outstanding principal balance at a rate of 3% per annum, starting from the date of disbursement. The loan matures fifty-five years after the completion of the development.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Mercy Housing – 231 Grant Ave LLC

On June 1, 2023, the City entered into a construction loan agreement with 231 Grant Ave LLC to construct approximately one hundred ten (110) residential rental units located at 231 Grant Ave. Of these, one hundred nine (109) units will be affordable to low-, moderate-, and above-moderate-income households earning no more than one hundred forty percent (140%) of the area median income, as determined by HUD. The units will be designated for teachers and certified and classified staff of the Palo Alto Unified School District (PAUSD) and surrounding school districts. The loan amount is \$3.0 million from Housing In-Lieu funds, secured by a deed of trust and an assignment of documents. It bears a simple interest rate of 3% per annum, commencing on June 1, 2023 and matures fifty-five years after the first year of operation post-completion.

Fabian Way Associates, LP

On August 4, 2008, the City provided a \$600,000 loan at 3% interest to support the construction of a 56-unit affordable senior housing project. The loan is secured by a deed of trust and an assignment of rents. Its original maturity date of December 31, 2011, was automatically extended to the 55th anniversary of the recording of the State HCD Multifamily Housing Program (MHP) loan. The MHP loan served as an additional source of funding for the construction, provided by the State to Fabian Way Associates.

NOTE 6 – LEASES AND SBITA

The City entered into various lease agreements as either a lessor or lessee for land, equipment, and other asset classes. Leasing activities are not considered to be the City's primary operation.

As a lessor, the City recognizes a lease receivable and a corresponding deferred inflow of resources. As a lessee, the City recognizes an intangible right-to-use lease asset and lease liability. These balances are measured at the Net Present Value (NPV) of future lease payments/receipts, discounted using an interest rate determined using the average of the Municipal Market Data (MMD) indices for the City's AAA rating.

The City records leases with an NPV of \$50,000 or greater. Lease agreements are remeasured if modifications result in a change to the NPV of \$50,000 or more. Contracts with rental agreements that include variable payments, such as those tied to usage or to the Consumer Price Index (CPI), are excluded from the NPV calculation unless they contain a fixed payment component. Variable amounts, including CPI-based adjustments, are recognized as lease revenue or expense in the period incurred. For the year ended June 30, 2025, the City paid/received an immaterial amount of variable payments as a lessee/lessor.

City as Lessor

At June 30, 2025, the City is a lessor for the following leases.

The City's Governmental Activities leases space used as a restaurant. The City also leases access and land for communication facilities and equipment under five separate contracts. There are four contracts under Governmental Activities and one under the Electric Services Fund.

The Airport Fund leases space and equipment at the airport. Contracts last for 3 years and continue on a month-to-month basis until a new contract is signed or a party terminates.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 6 – LEASES AND SBITA (Continued)

Information about lease revenues and interest revenues recognized during the year ended June 30, 2025, as well as lease receivable and lease related deferred inflows of resources as of June 30, 2025 are as follows (in thousands):

	<u>Asset Class</u>	<u>Lease Receivables at June 30, 2025</u>	<u>Deferred Inflows of Resources at June 30, 2025</u>	<u>Lease Revenue for the Year</u>	<u>Lease Interest Revenue for the Year</u>
Governmental Activities:					
	Land	\$ 2,286	\$ 2,037	\$ 33	\$ 1
	Space	419	371	200	69
	Land/Building	48	47	139	14
Total Governmental Activities		<u>\$ 2,753</u>	<u>\$ 2,455</u>	<u>\$ 372</u>	<u>\$ 84</u>
Business-Type Activities:					
Electric Fund	Access	\$ 109	\$ 103	\$ 17	\$ 4
Airport Fund *	Space/ Equipment	146	132	1,035	15
Total Business-Type Activities		<u>\$ 255</u>	<u>\$ 235</u>	<u>\$ 1,052</u>	<u>\$ 19</u>

* *Airport Fund's operations include the leasing of space and equipment.*

City as Lessee

At June 30, 2025, the City is a lessee for the following leases.

The City's Governmental Activities leases two automatic public toilets (APT), two spaces for community use and childcare services, and office space. Business-Type Activities leases land for a reservoir site under the Water Fund and office spaces under Wastewater Treatment Fund, Electric Fund, Gas Fund, Wastewater Collection Fund, and Water Fund. In fiscal year 2025, the City also entered into a lease for data center space, including a Private Cage and Secure Cabinets with Circuit-Based Power, accounted for as a space lease.

The City's lease liabilities balances and activities are as follows (in thousands):

	<u>Balance July 1, 2024</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2025</u>	<u>Current Portion</u>
Governmental activities	<u>\$ 6,042</u>	<u>\$ 8,743</u>	<u>\$ (3,542)</u>	<u>\$ 11,243</u>	<u>\$ 2,959</u>
Business-Type activities	<u>\$ 901</u>	<u>\$ 5,265</u>	<u>\$ (1,065)</u>	<u>\$ 5,101</u>	<u>\$ 1,181</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 6 – LEASES AND SBITA (Continued)

The annual payment schedule for the lease liabilities is as follows (dollars in thousands):

Fiscal Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2026	\$ 2,959	\$ 279	\$ 1,181	\$ 131
2027	2,702	203	832	103
2028	2,031	135	888	78
2029	2,046	76	947	51
2030	1,100	22	1,009	23
2031 - 2035	405	22	244	1
Total	<u>\$ 11,243</u>	<u>\$ 737</u>	<u>\$ 5,101</u>	<u>\$ 387</u>

Changes in the lease assets during the year ended June 30, 2025 were (in thousands):

	Balance July 1, 2024	Additions	Retirements	Balance June 30, 2025
Governmental activities				
Equipment	\$ 1,014	\$ 65	\$ -	\$ 1,079
Office Space	2,823	-	-	2,823
Space	12,581	8,678	-	21,259
Total depreciable capital assets	<u>16,418</u>	<u>8,743</u>	<u>-</u>	<u>25,161</u>
Less accumulated amortization:				
Equipment	(97)	(109)	-	(206)
Office Space	(1,739)	(601)	-	(2,340)
Space	(8,714)	(2,844)	-	(11,558)
Total accumulated amortization	<u>(10,550)</u>	<u>(3,554)</u>	<u>-</u>	<u>(14,104)</u>
Total governmental activities lease assets, net	<u>\$ 5,868</u>	<u>\$ 5,189</u>	<u>\$ -</u>	<u>\$ 11,057</u>
Business-type activities				
Office Space	\$ 3,940	\$ 4,214	\$ (127)	\$ 8,027
Land	78	1,051	-	1,129
Total depreciable capital assets	<u>4,018</u>	<u>5,265</u>	<u>(127)</u>	<u>9,156</u>
Less accumulated amortization:				
Office Space	(3,135)	(1,043)	127	(4,051)
Land	(46)	(103)	-	(149)
Total accumulated amortization	<u>(3,181)</u>	<u>(1,146)</u>	<u>127</u>	<u>(4,200)</u>
Total business-type activities lease assets, net	<u>\$ 837</u>	<u>\$ 4,119</u>	<u>\$ -</u>	<u>\$ 4,956</u>

Significant Lease from Embarcadero Way Property Owner, L.P.

On May 20, 2025, the City executed a lease agreement for the entire building located at 2470 Embarcadero Way. The initial term of the lease is 20 years, with an option to extend for one additional 10-year period. Annual base rent begins at approximately \$1.1 million and escalates to approximately \$2.0 million by the end of the initial lease term.

The lease commencement date is contingent upon the substantial completion of tenant improvements and the issuance of a certificate of occupancy, which is expected to occur during fiscal year 2026. Accordingly, no right-to-use asset or lease liability has been recognized in the accompanying FY2025 financial statements. The City will recognize the lease in the year when the lease commences.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 6 – LEASES AND SBITA (Continued)

SBITA

The City entered into various subscription-based information technology arrangements (SBITAs) for the operation of city services. SBITA liabilities were calculated based on the NPV of future subscription payments, discounted using interest rate determined using the average of MMD indices for the City's AAA rating. The City only recorded SBITA liabilities for arrangements with a NPV of \$50,000 or more. Certain arrangements' NPV were remeasured if changes to the arrangement resulted in a change of \$50,000 or more.

Arrangements where payment was dependent on future performance or usage were not taken into consideration unless there was associated fixed payments. Some agreements increased payments based on the CPI. The City considers these to be variable amounts and are therefore not factored into the NPV calculation. For the year ended June 30, 2025, the City paid an immaterial amount of variable payments for SBITA.

The City's Governmental Activities recorded 11 SBITAs and Business-type Activities recorded 8 SBITAs.

For the City's SBITA assets balances and activities, see Note 7.

The City's SBITA liabilities balances and activities are as follows (in thousands):

	Balance July 1, 2024	Additions	Retirements	Balance June 30, 2025	Current Portion
Governmental activities	\$ 2,404	\$ 2,585	\$ (2,112)	\$ 2,877	\$ 1,538
Business-Type activities	\$ 5,404	\$ 227	\$ (819)	\$ 4,812	\$ 452

The annual payment schedule for the SBITA liabilities is as follows (dollars in thousands):

Fiscal Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2026	\$ 1,538	\$ 96	\$ 452	\$ 138
2027	576	30	475	124
2028	482	17	414	109
2029	225	8	347	98
2030	17	1	288	89
2031 - 2035	39	2	2,836	401
Total	\$ 2,877	\$ 154	\$ 4,812	\$ 959

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 7 – CAPITAL ASSETS

Valuation

Capital assets are valued at historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition value at the time received. The City's policy is to capitalize all assets when costs are equal to or exceed \$5,000 and the useful life exceeds one year. Infrastructure assets are capitalized when costs are equal to or exceed \$100,000.

Proprietary fund capital assets are recorded at cost. Maintenance and repairs are expensed as incurred.

The City has recorded all its public domain capital assets, consisting of roadway and recreation and open space, in its government-wide financial statements. All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of those assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation of capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net position as a reduction in the book value of capital assets.

Depreciation is calculated using the straight-line method, which means the cost of the asset is divided by its expected useful life in years, and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets.

Governmental Activities	Years
Buildings and structures	20 - 30
Equipment:	
Computer equipment	3 - 5
Office machinery and equipment	5
Machinery and equipment	5 - 30
Intangible assets - software	5-20
Roadway network:	
Includes pavement, curbs, gutters and sidewalks, parking lots, and bridges	5 - 40
Recreation and open space network:	
Includes major park facilities, park trails, bike paths and medians	25 - 40
 Business-type Activities	
Buildings and structures	25 - 60
Vehicles and heavy equipment	3 - 10
Machinery and equipment	10 - 50
Transmission, distribution and treatment systems	10 - 100

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 7 – CAPITAL ASSETS (Continued)

Governmental Activities

Changes in the capital assets for governmental activities during the year ended June 30, 2025, were (in thousands):

	Balance July 1, 2024	Additions	Retirements	Transfers	Balance June 30, 2025
<i>Governmental activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 82,131	\$ -	\$ -	\$ -	\$ 82,131
Street trees	14,784	303	(181)	-	14,906
Intangible assets - Easement	3,567	-	-	-	3,567
Construction in progress	179,313	22,892	-	(22,916)	179,289
Total nondepreciable capital assets	279,795	23,195	(181)	(22,916)	279,893
Depreciable capital assets:					
Buildings and structures	356,316	-	-	-	356,316
Intangible assets - Software	42	-	-	-	42
Equipment	19,271	-	-	486	19,757
Roadway network	359,074	-	-	21,996	381,070
Recreation and open space network	36,994	-	-	434	37,428
Total depreciable capital assets	771,697	-	-	22,916	794,613
Less accumulated depreciation:					
Buildings and structures	(143,850)	(10,926)	-	-	(154,776)
Intangible assets - Software	(42)	-	-	-	(42)
Equipment	(10,621)	(614)	-	-	(11,235)
Roadway network	(203,157)	(8,039)	-	-	(211,196)
Recreation and open space network	(21,097)	(1,326)	-	-	(22,423)
Total accumulated depreciation	(378,767)	(20,905)	-	-	(399,672)
Depreciable capital assets, net	392,930	(20,905)	-	22,916	394,941
Internal service fund capital assets					
Construction in progress (nondepreciable)	9,786	1,840	-	(1,785)	9,841
Equipment (depreciable)	60,292	-	(1,285)	1,785	60,792
Less accumulated depreciation	(47,883)	(2,744)	1,285	-	(49,342)
Net internal service fund capital assets	22,195	(904)	-	-	21,291
Amortized lease assets					
Intangible assets - right to use leased assets	16,418	8,743	-	-	25,161
Less accumulated amortization	(10,550)	(3,554)	-	-	(14,104)
Net amortized lease assets	5,868	5,189	-	-	11,057
Amortized SBITA assets					
<i>Governmental activities</i>					
Intangible assets - right to use SBITA assets	753	601	(112)	-	1,242
Less accumulated amortization	(245)	(295)	112	-	(428)
Net amortized SBITA assets - governmental activities	508	306	-	-	814
<i>Internal service fund</i>					
Intangible assets - right to use SBITA assets	3,706	1,984	(185)	-	5,505
Less accumulated amortization	(1,903)	(1,739)	71	-	(3,571)
Net amortized SBITA assets - internal service fund	1,803	245	(114)	-	1,934
Total net amortized SBITA assets	2,311	551	(114)	-	2,748
Total nondepreciable capital assets	289,581	25,035	(181)	(24,701)	289,734
Total depreciable capital assets, net	413,518	(17,909)	(114)	24,701	420,196
Governmental activities capital assets, net	\$ 703,099	\$ 7,126	\$ (295)	\$ -	\$ 709,930

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 7 – CAPITAL ASSETS (Continued)

Business-Type Activities Capital Assets

Changes in the capital assets for the business-type activities during the year ended June 30, 2025, were (in thousands):

	Balance July 1, 2024	Additions	Retirements	Transfers	Balance June 30, 2025
<i>Business-type activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 4,973	\$ -	\$ -	\$ -	\$ 4,973
Construction in progress	264,119	118,233	-	(115,540)	266,812
Total nondepreciable capital assets	<u>269,092</u>	<u>118,233</u>	<u>-</u>	<u>(115,540)</u>	<u>271,785</u>
Depreciable capital assets:					
Buildings and structures	84,855	60	-	1,693	86,608
Infrastructure	633	-	-	41,189	41,822
Transmission, distribution and treatment systems	1,006,132	305	(2,017)	72,658	1,077,078
Total depreciable capital assets	<u>1,091,620</u>	<u>365</u>	<u>(2,017)</u>	<u>115,540</u>	<u>1,205,508</u>
Less accumulated depreciation:					
Buildings and structures	(22,563)	(1,756)	-	-	(24,319)
Infrastructure	(149)	(1,165)	-	-	(1,314)
Transmission, distribution and treatment systems	(458,631)	(24,779)	1,648	-	(481,762)
Total accumulated depreciation	<u>(481,343)</u>	<u>(27,700)</u>	<u>1,648</u>	<u>-</u>	<u>(507,395)</u>
Depreciable capital assets, net	<u>610,277</u>	<u>(27,335)</u>	<u>(369)</u>	<u>115,540</u>	<u>698,113</u>
Amortized lease assets					
Intangible assets - right to use lease assets	4,018	5,265	-	(127)	9,156
Less accumulated amortization	(3,181)	(1,146)	-	127	(4,200)
Net amortized lease assets	<u>837</u>	<u>4,119</u>	<u>-</u>	<u>-</u>	<u>4,956</u>
Amortized SBITA assets					
Intangible assets - right to use SBITA assets	6,120	227	(589)	-	5,758
Less accumulated amortization	(715)	(571)	211	-	(1,075)
Net amortized SBITA assets	<u>5,405</u>	<u>(344)</u>	<u>(378)</u>	<u>-</u>	<u>4,683</u>
Total depreciable capital assets, net	<u>616,519</u>	<u>(23,560)</u>	<u>(747)</u>	<u>115,540</u>	<u>707,752</u>
Business-type activities capital assets, net	<u>\$ 885,611</u>	<u>\$ 94,673</u>	<u>\$ (747)</u>	<u>\$ -</u>	<u>\$ 979,537</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 7 – CAPITAL ASSETS (Continued)

Depreciation Allocation

Depreciation expenses were charged to functions and programs based on their usage of the related assets. The amount allocated to each function or program is as follows (in thousands):

<i>Governmental Activities</i>		<i>Business-type Activities</i>	
City Manager	\$ 19	Water	\$ 3,783
City Attorney	1	Electric	9,143
City Clerk	4	Fiber Optics	431
City Auditor	1	Gas	3,922
Administrative Services	2	Wastewater Collection	3,214
Public Works	12,609	Wastewater Treatment	4,470
Planning and Development Services	424	Refuse	78
Office of Transportation	56	Storm Drainage	1,379
Police	125	Airport	1,280
Fire	636		<u>\$ 27,700</u>
Community Services	4,664		
Library	2,364		
Internal Service Funds	2,744		
	<u>\$ 23,649</u>		

Amortization of Right to Use Leased and SBITA Assets

Right to use leased assets are amortized in a systematic and rational manner over the lease term of the underlying lease and SBITA assets. The amount of amortized expense recognized in the fiscal year ended June 30, 2025 is as follows (in thousands):

<i>Governmental Activities</i>		<i>Business-type Activities</i>	
<u><i>Lease assets</i></u>			
Public Works	\$ 109	Water	\$ 162
Administrative Services	2,844	Electric	319
Planning and Development Services	601	Fiber Optics	88
	<u>\$ 3,554</u>	Gas	132
		Wastewater Collection	97
		Wastewater Treatment	348
			<u>\$ 1,146</u>
<u><i>SBITA assets</i></u>			
Administrative Services	\$ 295	Water	\$ 14
Internal Service Funds	1,739	Electric	457
	<u>\$ 2,034</u>	Fiber Optics	52
		Gas	15
		Wastewater Collection	8
		Wastewater Treatment	25
			<u>\$ 571</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 7 – CAPITAL ASSETS (Continued)

Construction In Progress

Construction in progress as of June 30, 2025, is comprised of the following (in thousands):

Governmental Activities	Expended to June 30, 2025
New Public Safety Building	\$ 123,712
Bicycle Boulevards Implementation Project	9,349
Technology CIP Fund	6,558
Boulware Park Improvement Project	6,369
Traffic Signal Upgrades	5,807
Parking Guidance Systems, Access Control	4,406
Newell Road Bridge/SFC Bridge Replacement	4,335
Rinconada Park Improvements	3,823
Fire Station No.4 Replacement	3,415
Vehicle CIP Fund	3,282
Animal Shelter Renovation	2,950
Churchill Ave/Alma St Railroad Cross Safety	2,816
New Downtown Parking Garage	1,692
Cubberley Field Restroom	1,183
Civic Ctr Fire Life Safety & Elect	1,013
Park Restroom Installation	878
Building System Improvements	865
Civic Center Electrical Upgrade	759
Art In Public Places	736
JMZ Renovation	729
Performance Art Venue	695
Municipal Service Center Improvements	668
Library Automated Material Handling	634
Charleston/Arastradero Corridor	430
Other Construction In Progress	2,026
Total Governmental Activities	<u>\$ 189,130</u>
Business-type Activities	Expended to June 30, 2025
Water quality control plant equipment replacement and lab facilities	\$ 153,992
Electric distribution system improvements	45,106
Water system extension replacements and improvements	11,038
Other electrical improvement projects	9,815
Storm drainage structural and water quality improvements	2,329
Gas system extension replacements and improvements	1,999
Other construction in progress	42,533
Total Business-type Activities	<u>\$ 266,812</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 7 – CAPITAL ASSETS (Continued)

Construction In Progress Commitments

Major governmental capital projects that are currently in progress, and the remaining capital commitment of each, are as follows:

- Fire Station No. 4 Replacement - \$15.5 million
- Vehicle Replacements - \$7.5 million
- Street Maintenance - \$7.0 million
- Municipal Service Center Improvements - \$6.3 million
- New Public Safety Building - \$3.7 million
- Bicycle & Pedestrian Transportation Plan Implementation - \$3.5 million
- Stanford Palo Alto Community Playing Fields Turf Replacement - \$3.4 million
- Churchill Avenue Enhance Bikeway - \$3.3 million
- Newell Road Bridge/San Francisquito Creek Bridge Replacement - \$3.2 million

Major business-type capital projects that are currently in progress, and the remaining capital commitment of each, are as follows:

- Grid Modernization for Electrification - \$5.8 million
- Hanover Substation Expansion (Tesla) - \$14.3 million
- GMR – Project 25 - \$8.6 million
- Fiber-to-the-Premise - \$12.3 million
- Secondary Treatment Upgrades - \$63.3 million
- Plant Repair, Retrofit & Equipment Replacement - \$10.9 million
- Advanced Water Purification Facility - \$56.1 million

Vehicle Registration Fees (VRF)

In fiscal year 2025, the City received VRF funds from the Santa Clara Valley Transportation Authority and expended the full amount on capital expenditures for the 2025 Preventative Maintenance Project (in thousands):

Starting VRF balance July 1, 2024	\$ -
VRF revenue	448
VRF interest earned	1
VRF expense	(449)
Ending VRF balance June 30, 2025	<u>\$ -</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 8 – LONG-TERM DEBT

The City's long-term debt balances and activities, other than special assessment debt discussed in Note 9, are as follows (in thousands):

	Original Issue Amount	Balance July 1, 2024	Additions	Retirements	Balance June 30, 2025	Current Portion
Governmental Activities Debt:						
2013A General Obligation Bonds, 2 - 5%, due 08/01/2041	\$ 20,695	\$ 11,180	\$ -	\$ 525	\$ 10,655	\$ -
2022 General Obligation Bonds, Series A, 5%, due 08/01/2040	34,435	33,330	-	1,380	31,950	1,940
2022 General Obligation Bonds, Series B, 4%, due 08/01/2028	2,110	2,110	-	-	2,110	-
2018 Capital Improvement Project and Refinancing Certificates of Participation, 2.2%- 4.22%, due 11/1/2047	8,970	7,985	-	205	7,780	215
2019 California Ave Parking Garage Certificates of Participation, Series A & B 2.5%-5%, due 11/1/2048	37,370	34,365	-	720	33,645	760
2021 Public Safety Building Certificates of Participation, 2%-5%, due 11/1/2050	101,505	99,370	-	2,245	97,125	2,360
Add: Unamortized Premium	-	14,506	-	710	13,796	710
Total Governmental Activities Debt	\$ 205,085	\$ 202,846	\$ -	\$ 5,785	\$ 197,061	\$ 5,985
Business-type Activities Debt:						
	Original Issue Amount	Balance July 1, 2024	Additions	Retirements	Balance June 30, 2025	Current Portion
Utility Revenue Bonds						
2009 Series A, 1.80-5.95%, due 06/01/2035	\$ 35,015	\$ 20,445	\$ -	\$ 1,420	\$ 19,025	\$ 1,485
2011 Refunding, 3-4%, due 06/01/2035	17,225	2,785	-	1,370	1,415	1,415
Add: Unamortized Premium	-	152	-	86	66	-
Total Bonds	52,240	23,382	-	2,876	20,506	2,900
State Water Resources Loans						
Direct Borrowings:						
2007, 1.02%, due 06/30/2029	9,000	2,250	-	450	1,800	450
2009, 2.6%, due 11/30/2030	8,596	3,515	-	464	3,051	476
2017, 1.8%, due 5/31/2049	25,197	21,826	-	699	21,127	712
2021, 0.9%, due 7/31/2054	16,672	13,998	2,674	-	16,672	496
2022, 0.8%, due 7/28/2058	168,659	60,354	50,840	-	111,194	-
Total Direct Borrowings	228,124	101,943	53,514	1,613	153,844	2,134
Total Business-type Activities Debt	\$ 280,364	\$ 125,325	\$ 53,514	\$ 4,489	\$ 174,350	\$ 5,034

Bond premiums and discounts of long-term debt issues are amortized over the life of the related debt.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 8 – LONG-TERM DEBT (Continued)

Description of Long-Term Debt Issues

2013A General Obligation Bonds (2013A GO Bonds) and 2022A and B General Obligation Bonds (2022A&B GO Bonds) – On June 26, 2013, the City issued GO bonds to finance costs for constructing a new Mitchell Park Library and Community Center, as well as substantial improvements to the Main Library and the Downtown Library. Principal payments are due annually on August 1 and interest payments semi-annually on February 1 and August 1, from 2.0% to 5.0%, and are payable from property tax revenues.

On June 28, 2016, the City defeased \$2.8 million of 2013A GO Bonds using funds remaining at completion of the project. On March 2, 2022, Council approved the refinancing of the 2010 General Obligation Bonds (2010 GO Bonds) and 2013A GO Bonds outstanding principal of \$40.6 million and \$13.6 million, respectively, through the issuance of 2022A&B GO Bonds of \$36.5 million.

The City's 2013A, 2022A and 2022B GO Bonds are general obligations of the City, secured and payable solely from ad valorem property taxes levied by the City and collected by the County of Santa Clara. The City is empowered and obligated to annually levy ad valorem taxes for the payment of the Bonds and the interest thereon upon all property within the City subject to taxation by the City, without limitation of rate or amount (except certain personal property which is taxable at limited rates) until the final maturity dates of the bonds. For the fiscal year ended June 30, 2025, the City received \$4.3 million in ad valorem property taxes.

2018 Capital Improvement ("Golf Course") Project and Refinancing Certificates of Participation (2018 COPs) – On June 1, 2018, the City issued taxable COPs of \$9.0 million for the renovation of the Palo Alto Municipal Golf Course (\$8.4 million) and to fully refinance the 2002B Downtown Parking Improvement Project COPs (\$0.6 million). There are two semi-annual debt service payments, consisting of principal payments due annually on November 1 and interest payments due on May 1 and November 1, which are payable solely from and secured by the lease payments to be made by the City's General Fund to the Public Improvement Corporation pursuant to the Lease Agreement. The leased property is the Palo Alto University Fire Station 1. The 2018 COPs has a final maturity date of November 1, 2047.

2019 California Avenue Parking Garage Series A and B Certificates of Participation (2019A and 2019B COPs) – On March 21, 2019, the City issued tax-exempt 2019A COPs of \$26.8 million and taxable 2019B COPs of \$10.6 million for the construction of the California Avenue Parking Garage. There are two semi-annual debt service payments, consisting of principal payments due annually on November 1 and interest payments due on May 1 and November 1. The debt service is payable solely from and secured by the lease payments to be made by the City's General Fund to the Public Improvement Corporation pursuant to the Lease Agreement. The leased property is the Rinconada Library and after construction and the substantial readiness of the California Avenue Parking Garage project, the garage will become the leased property. The maturity dates for the 2019A COPs and 2019B COPs are November 1, 2044 and November 1, 2048, respectively. The reserve account requirement was waived due to the City being a highly rated bond issuer.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 8 – LONG-TERM DEBT (Continued)

2021 Public Safety Building Certificates of Participation (2021 COPs) – On March 24, 2021, the City issued tax-exempt COPs of \$101.5 million for the construction of the City’s new public safety building. There are two semi-annual debt service payments, consisting of principal payments due annually on November 1 and interest payments due on May 1 and November 1. The debt service is payable solely from and secured by the lease payments to be made by the City’s General Fund to the Public Improvement Corporation pursuant to the Lease Agreement. The leased property is the City’s Civic Center and after construction and the substantial readiness of the Public Safety Building project, the new public safety building will become the leased property. The maturity date for the 2021 COPs is November 1, 2050. The reserve account requirement was waived due to the City being a highly rated bond issuer.

2009 Water Revenue Bonds, Series A – On October 6, 2009, the City issued \$35.0 million of Water Revenue Bonds to finance certain improvements to the City’s water utility system. Principal payments are due annually on June 1, and interest payments are due semi-annually on June 1 and December 1 from 1.805 to 5.95%. The 2009 Revenue Bonds are secured by net revenues generated by the Water Services Fund. The 2009 Bonds were issued as bonds designated as “Direct Payment Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009 (“Build America Bonds”). The City expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on the 2009 Bonds. The lien of the 1995 Bonds on the Net Revenues is senior to the lien on Net Revenues securing the 2009 Bonds and the 2011 Bonds.

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$19.0 million principal and \$6.6 million interest as the remaining debt service on the bonds, which is scheduled to occur in fiscal year 2035. For fiscal year 2025, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$58.5 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$47.2 million. Net Revenues available for debt service amounted to \$11.3 million, which represented coverage of 23.8 times over the \$2.6 million in debt service.

2011 Utility Revenue Refunding Bonds – On September 8, 2011, the City issued \$17.2 million in Lease Revenue Bonds (2011 Bonds) to refund the outstanding 2002 Series A Utility Revenue Bonds (2002 Bonds) on a current basis. The 2002 Bonds were issued to finance improvement to the City’s municipal water utility system and the natural gas utility system. Principal of the 2011 Bonds is payable annually on June 1, and interest on the 2011 Bonds is payable semi-annually on June 1 and December 1. The 2011 Bonds are secured by net revenues generated by the Water Services and Gas Services Funds.

The pledge of future Net Revenues of the above bonds ends upon repayment of the \$1.4 million principal and \$0.1 million interest as remaining debt service on the bonds, which is scheduled to occur in fiscal year 2026. For fiscal year 2025, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$119.6 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$85.0 million. Net Revenues available for debt service amounted to \$34.6 million, which represented coverage of 24 times over the \$1.5 million in debt service.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 8 – LONG-TERM DEBT (Continued)

Direct Borrowing - 2007 State Water Resources Loan – In October 2007, the City approved a \$9.0 million direct loan agreement with State Water Resources Control Board (SWRCB) to finance the City’s Mountain View/Moffett Area reclaimed water pipeline project. Under the terms of the contract, the City has agreed to repay \$9.0 million to the State in exchange for receiving \$7.5 million in proceeds to be used to fund the Project. The difference of \$1.5 million between the repayment obligation and proceeds represents in-substance interest on the outstanding balance. Principal payments are payable annually on June 30.

Concurrently with the loan, the City entered into various other agreements including a cost sharing arrangement with the City of Mountain View. Pursuant to that agreement, City of Mountain View agreed to finance a portion of the project with a \$6.0 million loan repayable to the City. This loan has been recorded as “Due from other government agencies” in the accompanying financial statements. The balance due to the City at June 30, 2025 was \$1.2 million.

Direct Borrowing - 2009 State Water Resources Loan – In October 2009, the City approved an \$8.6 million direct loan agreement with SWRCB to finance the City’s Ultraviolet Disinfection project. Principal and interest payments are payable annually on November 30. The loan interest rate is 2.60% which represents a combination of loan service charge and interest.

Direct Borrowing - 2017 State Water Resources Loan - In June 2017, the SWRCB and the City executed a direct loan agreement for an award up to \$30 million, payable over 30 years to finance the replacement of sewage sludge “bio-solids” incinerators at the City’s Regional Water Quality Control Plant (RWQCP). In September 2017, due to the projected lower project costs, the agreement was amended to a lower loan amount of \$29.7 million, however, the actual loan was \$25.2 million, net of \$4.0 loan principal forgiveness for environmental benefits and other adjustments for actual costs. The loan interest rate is 1.80%.

The new facility will dewater the bio-solids and allow the material to be loaded onto trucks and taken to a separate facility for further treatment. The RWQCP provides treatment and disposal for wastewater for Palo Alto, Mountain View, Los Altos, Los Altos Hills, East Palo Alto Sanitary District, and Stanford University. Though Palo Alto is the recipient of the loan, the City’s agreement with the partner agencies oblige them to pay their proportionate share of the principal and interest of this loan. Palo Alto’s share of the loan payment is 38.2% with the partner agencies paying 61.8%.

Direct Borrowing - 2021 State Water Resources Loan – In July 2021, the City entered into a \$17.5 million direct loan agreement with SWRCB to finance the rehabilitation and upgrade of the City’s RWQCP Primary Sedimentation Tanks (PSTs) and ancillary systems to improve reliability of the treatment processes at RWQCP. In October/November 2022, due to higher cost, this award was amended upward to \$19.4 million, an increase of \$1.9 million. Construction was completed in FY 2025, with a total loan of \$16.7 million. The first annual installment is due July 31, 2025. The loan interest rate is 0.9%.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 8 –LONG-TERM DEBT (Continued)

Though Palo Alto is the recipient of the loan, the City’s agreement with the partner agencies oblige them to pay their proportionate share of the principal and interest of this loan. Palo Alto’s share of the loan payment is 38.2% with the partner agencies paying 61.8%.

Direct Borrowing - 2022 State Water Resources Loan – In May 2022, the City entered into a \$168.7 million direct loan agreement with SWRCB to finance the Secondary Treatment Upgrades project to produce treated effluent with reduced total nitrogen content, increase treatment capacity, and rehabilitate aging infrastructure. In August 2024, the approved loan amount was increased to \$192.8 million. The loan interest rate is 0.8%. Construction of the project is currently ongoing, and loan draws are made on a reimbursement basis. Upon completion, if the total project cost is less than the approved loan amount, the final loan principal will be adjusted to reflect the actual eligible construction costs and related accrued interest.

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. Palo Alto’s share of the loan payment is 38.2% with the partner agencies paying 61.8%.

Debt Service Requirements (in thousands):

Debt service requirements are shown below for all long-term debt.

For the Year Ending June 30	Governmental Activities			Business-Type Activities					
	Principal	Interest	Total	Bonds			Direct Borrowings		
				Principal	Interest	Total	Principal	Interest	Total
2026	\$ 5,275	\$ 6,629	\$ 11,904	\$ 2,900	\$ 1,121	\$ 4,021	\$ 2,134	\$ 388	\$ 2,522
2027	5,535	6,367	11,902	1,555	1,009	2,564	2,154	376	2,530
2028	5,810	6,091	11,901	1,630	936	2,566	2,184	353	2,537
2029	6,105	5,802	11,907	1,720	844	2,564	2,215	330	2,545
2030	6,480	5,498	11,978	1,820	746	2,566	5,090	1,195	6,285
2031-2035	37,085	22,764	59,849	10,815	2,005	12,820	24,033	5,289	29,322
2036-2040	44,945	14,787	59,732	-	-	-	24,672	4,303	28,975
2041-2045	33,860	7,868	41,728	-	-	-	25,921	3,283	29,204
2046-2050	33,215	2,745	35,960	-	-	-	26,152	2,210	28,362
2051-2055	4,955	56	5,011	-	-	-	22,882	1,218	24,100
2056-2059	-	-	-	-	-	-	16,407	329	16,736
Total	<u>\$ 183,265</u>	<u>\$ 78,607</u>	<u>\$ 261,872</u>	<u>\$ 20,440</u>	<u>\$ 6,661</u>	<u>\$ 27,101</u>	<u>\$ 153,844</u>	<u>\$ 19,274</u>	<u>\$ 173,118</u>

Debt Call Provisions

Long-term debt as of June 30, 2025 is callable on the following terms and conditions:

	<u>Initial Call Date</u>
Business-Type Activities Long-Term Debt	
Utility Revenue Bonds	
2011 Refunding	06/01/21 (1)

- (1) Callable in inverse numerical order of maturity at par plus a premium of 2% beginning on the initial call date. The call price declines subsequent to the initial date.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 8 –LONG-TERM DEBT (Continued)

Leasing Arrangements

COPs are issued for the purpose of financing the construction or acquisition of projects defined in each leasing arrangement. Projects are leased to the City for lease payments which, together with unspent proceeds of the leasing arrangement, will be sufficient to meet the debt service obligations of the leasing arrangement. At the termination of the leasing arrangement, title to the project will pass to the City.

Leasing arrangements are similar to debt in that they allow investors to participate in a share of guaranteed payments made by the City. Because they are similar to debt, the present value of the total payments to be made by the City is recorded as long-term debt. The City's leasing arrangements are included in long-term obligations discussed above.

Events of Default and Acceleration Clauses

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

NOTE 9 – SPECIAL ASSESSMENT DEBT

Special Assessment Debt with no City Commitment

On February 29, 2012, the District issued Limited Obligation Refunding Improvement Bonds (2012 Bonds), but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on properties in this District. The City is in no way responsible for the repayment of the Bonds, but is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings, when appropriate. Therefore, this debt is not included in Governmental Activities long-term debt of the City. At June 30, 2025, the District's outstanding debt amounted to \$11.5 million. The proceeds from the 2012 Bonds, combined with available Assessment Funds, were used to redeem the outstanding University Avenue Area Off-Street Parking Assessment District Series 2001-A and Series 2002-A Bonds. Reserve and redemption funds held by the District are reported within the University Avenue Area Off-Street Parking Assessment District Custodial Fund.

NOTE 10 – LANDFILL POST-CLOSURE MAINTENANCE

The 126-acre Palo Alto Refuse Disposal Site (Palo Alto Landfill) was filled to capacity and stopped accepting waste in July 2011. State and federal laws and regulations require the City to construct a final cover to cap the waste, and to perform certain post-closure maintenance and monitoring activities at the site for a minimum of thirty years after closure. As of November 2015, the Palo Alto Landfill has been fully capped and subsequently converted to a pastoral park (Byxbee Park) that is open to the public. A final post-closure maintenance plan and cost estimate for the thirty-year post-closure maintenance related activities and corrective action costs was approved by State and local regulatory agencies in 2014. As required by the State, an updated five-year post-closure maintenance plan and cost estimate was submitted and approved in fiscal year 2021. This cost estimate is adjusted annually for inflation at a percentage provided by the State. Landfill post-closure liabilities as of June 30, 2025 are \$7.3 million, an increase of \$0.2 million from the previous year. The City is required by State and federal laws and regulations to fund post-closure maintenance activities by pledging future revenue received from Refuse customers through rate fees.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 11 – NET POSITION AND FUND BALANCES

Net Position

Net Position is the excess of the City's assets and deferred outflows of resources over its liabilities and deferred inflows of resources. Net position is divided into three categories that are described below:

Net Investment in Capital Assets describes the portion of net position, which is represented by current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of net position that is reduced by liabilities related to restricted assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

Unrestricted describes the portion of net position which is not restricted as to use.

Fund Balances

Governmental funds report fund balances in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balances for governmental funds are made up of the following:

Nonspendable – This category is comprised of amounts that are: (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: prepaid items. The corpus of the permanent fund is contractually required to be maintained intact.

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

Committed – This category is comprised of amounts that can only be used for the specific purposes determined by the action that constitutes the most binding constraint (i.e. ordinance) of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally.

Assigned – This category is comprised of amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by the City Council or the City Manager, to whom the City Council has delegated the authority to assign amounts to be used for specific purposes.

Unassigned – This category is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. Other governmental funds may report negative unassigned fund balance, which occurs when a fund has a residual deficit after allocation of fund balance to the nonspendable, restricted or committed categories.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 11 – NET POSITION AND FUND BALANCES (Continued)

The fund balances of all governmental funds are presented by the above-mentioned categories on the face of the financial statements. In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance categories, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

The General Fund Budget Stabilization Reserve (BSR) is established by authority of the General Fund Reserve Policy, which is approved by the City Council and included in the City's annual adopted budget. The BSR is maintained in the range of 15 to 20% of General Fund expenditures and transfers, with a target of 18.5%. Any reserve level below 15% requires City Council approval. At the discretion of the City Manager, a reserve balance above 18.5% may be transferred to the Infrastructure Reserve within the Capital Projects Fund or the City's Section 115 Pension Trust, as outlined in the Pension Funding Policy. The purpose of the General Fund BSR is to fund unbudgeted, unanticipated one-time costs. The BSR is not meant to fund ongoing, recurring General Fund expenditures.

As of June 30, 2025, total outstanding encumbrances and reappropriations related to governmental funds were \$25.6 million for the General Fund, \$80.0 million for the Capital Projects Fund, and \$2.2 million for the Special Revenue Funds.

Enterprise Funds

At June 30, 2025, enterprise funds' unrestricted net position (in thousands) were as follows:

	Water	Electric	Fiber Optics	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Total
Unrestricted										
Rate stabilization										
Supply	\$ -	\$ -	\$ -	\$ (5,483)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,483)
Distribution	4,000	-	17,440	1,050	-	(23,229)	15,470	1,023	(1,149)	14,605
	<u>4,000</u>	<u>-</u>	<u>17,440</u>	<u>(4,433)</u>	<u>-</u>	<u>(23,229)</u>	<u>15,470</u>	<u>1,023</u>	<u>(1,149)</u>	<u>9,122</u>
Operations										
Supply	-	43,631	-	-	-	-	-	-	-	43,631
Distribution	16,350	2,949	-	1,316	1,698	-	-	-	-	22,313
	<u>16,350</u>	<u>46,580</u>	<u>-</u>	<u>1,316</u>	<u>1,698</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,944</u>
Emergency plant replacement	-	-	1,000	-	-	1,980	-	-	-	2,980
Electric special projects	-	30,149	-	-	-	-	-	-	-	30,149
Reappropriations	5,827	27,391	11,616	11,558	1,804	587	-	2,197	49	61,029
Commitments	976	21,306	1,514	10,785	137	15,206	3,163	11,964	242	65,293
Underground loan	-	727	-	-	-	-	-	-	-	727
Notes and loans	-	-	3,000	-	-	2,287	-	-	-	5,287
Landfill corrective action	-	-	-	-	-	-	805	-	-	805
Hydro stabilization reserve	-	18,767	-	-	-	-	-	-	-	18,767
Electrification reserve	-	2,037	-	-	-	-	-	-	-	2,037
Public benefit program	-	8,163	-	-	-	-	-	-	-	8,163
Reserve for LCFS	-	6,372	-	-	-	-	-	-	-	6,372
CIP reserve	3,500	880	-	-	-	-	-	-	-	4,380
Geng Road reserve	-	-	-	-	-	-	268	-	-	268
Cap & Trade	-	6,675	-	15,046	-	-	-	-	-	21,721
GASB 68 Pension	(13,152)	(34,668)	(2,481)	(13,798)	(8,142)	(21,243)	(6,404)	(4,598)	(1,174)	(105,660)
GASB 75 OPEB	(2,417)	(8,390)	(2)	(3,829)	(1,522)	(4,713)	(1,657)	(740)	(300)	(23,570)
GASB 87 Leases	-	6	-	-	-	-	-	-	14	20
Unrealized loss on investments	(787)	(3,993)	(968)	(969)	(56)	(84)	(826)	(396)	(38)	(8,117)
Total	<u>\$ 14,297</u>	<u>\$ 122,002</u>	<u>\$ 31,119</u>	<u>\$ 15,676</u>	<u>\$ (6,081)</u>	<u>\$ (29,209)</u>	<u>\$ 10,819</u>	<u>\$ 9,450</u>	<u>\$ (2,356)</u>	<u>\$ 165,717</u>

The City Council has set aside unrestricted net position for general contingencies, and future capital and debt service expenditures including operating and capital contingencies for unusual or emergency expenditures.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 11 – NET POSITION AND FUND BALANCES (Continued)

Internal Service Funds

At June 30, 2025, Internal Service Funds unrestricted net position (in thousands) were as follows:

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total
Unrestricted net position:								
Commitments	\$ 10,088	\$ 6,565	\$ 50	\$ -	\$ 9	\$ 15	\$ -	\$ 16,727
Future catastrophic losses	-	-	-	-	-	8	-	8
Retiree health care	-	-	-	-	-	-	1,386	1,386
GASB 68 pension	(2,921)	(11,007)	(157)	-	55	-	-	(14,030)
GASB 75 OPEB	(1,050)	(2,050)	(115)	-	14	-	-	(3,201)
Available	12,675	10,827	184	(1,331)	7,237	1,655	-	31,247
Total	<u>\$ 18,792</u>	<u>\$ 4,335</u>	<u>\$ (38)</u>	<u>\$ (1,331)</u>	<u>\$ 7,315</u>	<u>\$ 1,678</u>	<u>\$ 1,386</u>	<u>\$ 32,137</u>

- Commitments represent the portion of net position set aside for open purchase orders and reappropriations.
- Future catastrophic losses represent the portion of net position to be used for unforeseen future losses.
- Retiree health care represents the portion of net position set aside to defer future costs of retiree health care coverage.
- GASB 68 pension represents the net impact of net pension liability and related deferred outflows/inflows of resources balances.
- GASB 75 OPEB represents the net impact of net OPEB liability and related deferred outflows/inflows of resources balances.

Deficit Fund Balance and Net Position:

At June 30, 2025, the City's Printing and Mailing Services internal service fund had a deficit net position of \$32,000. The deficit is due to the impact of Pension and OPEB liabilities and related balances. The deficits are expected to be funded by future internal service charges to other City funds.

The Street Improvement nonmajor fund, Special Districts nonmajor fund, and Asset Seizure nonmajor fund had deficit fund balances of \$10,000, \$269,000 and \$1,000, respectively. The deficit fund balances are expected to be cured by future receipt of resources and/or transfers from other funds.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 12 – PENSION PLANS

(a) General Information about the Pension Plans

Plan Descriptions - Substantially all permanent City employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by CalPERS, which acts as a common investment and administrative agent for its participating member employers. Benefits provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans including benefits provisions, assumptions and membership information. The reports can be found on the CalPERS website at www.calpers.ca.gov.

Benefits Provided - CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to Plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service (equal to one year of full-time employment), age at retirement and final compensation. The death benefit is one of the following: the 1959 Survivor Benefit, or the pre-retirement option 2W Death Benefit for local fire members only.

The Plans' provisions and benefits in effect as of June 30, 2024, are summarized in the following table. Contribution rates are based on the Actuarial Valuation Report as of June 30, 2021.

	Safety Plan			
	Fire Fighters, Fire Chief Association, Police Officers, Prior to June 8, 2012	Fire Fighters, Fire Chief Association On or after June 8, 2012	Police Officers, Police Management On or after Dec. 8, 2012	Fire Fighters, Fire Chief Association, Police Officers, On or after Jan 1, 2013
Hire Date	Prior to June 8, 2012	2012	2012	2013
Benefit formula ¹	3% at 55	3% at 55	3% at 50	2.7% at 57
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50	55 ¹	55 ¹	57 ¹
Monthly benefit as % of eligible compensation	3%	3%	3%	2.7%
Actuarially determined contribution rate - EE	9%	9%	9%	11.75%
Actuarially determined contribution rate - ER	83.14%	83.14%	83.14%	83.14%

	Miscellaneous Plan		
	Prior to July 17, 2010	On or after July 17, 2010	On or after Jan 1, 2013
Hire Date	Prior to July 17, 2010	2010	2013
Benefit formula	2.7% at 55 ²	2% at 60 ²	2% at 62 ³
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	55 ²	60 ²	62 ³
Monthly benefit as % of eligible compensation ²	2.70%	2.0% - 2.418%	2%
Actuarially determined contribution rate - EE	8%	7%	6.25%
Actuarially determined contribution rate - ER	47.39%	47.39%	47.39%

¹ Employees can retire at age 50 with reduced benefits of 2.4% - 2.88% if hired before Jan 1, 2013, or 2.0% - 2.6% if hired on or after Jan 1, 2013.

² Employees can retire at age 50 with reduced benefits of 2.0% - 2.56% if hired before July 17, 2010, or 1.092% - 1.874% if hired on or after July 17, 2010.

³ Employees can retire at age 52 with reduced benefits of 1.0% - 1.9%

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 12 – PENSION PLANS (Continued)

Employees Covered – Based on the Actuarial Valuation Report as of June 30, 2024, the most recent information available, the following employees were covered by the benefits terms for each Plan:

	Miscellaneous Plan	Safety Plan
Inactive employees or beneficiaries currently receiving benefits	1,364	464
Inactive employees entitled to but not yet receiving benefits	897	135
Active employees	833	159
Total	3,094	758

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2025, the City’s actuarial determined contributions were \$38.3 million and \$19.6 million for the Miscellaneous Plan and Safety Plan, respectively.

In April 2017, the City established a Section 115 irrevocable trust with the Public Agency Retirement Services (PARS). The Trust Account allows more control and flexibility in investment allocations compared to City’s portfolio which is restricted by State regulations to fixed income instruments. The City proactively contributes to the Section 115 irrevocable trust amounts reflective of what retirement costs would be if the normal cost of contributions was budgeted at a 5.3% discount rate. During the year ended June 30, 2025, the City contributed \$14.2 million to the PARS Trust. As of June 30, 2025, the City reported the account balance of \$109.9 million as restricted investments in the General Benefits Internal Service Fund.

(b) Net Pension Liability

The City’s net pension liability for each plan is measured as the total pension liability, less each plan’s fiduciary net position. Net pension liability is measured as of June 30, 2024 (measurement date), using the Actuarial Valuation Report as of June 30, 2023 rolled forward to June 30, 2024 using standard update procedures.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 12 – PENSION PLANS (Continued)

Actuarial Assumptions - The total pension liabilities were determined using the following actuarial assumptions:

	Miscellaneous and Safety Plans
Valuation Date	June 30, 2023
Measurement Date	June 30, 2024
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	Varies by Entry Age and Service
Mortality ¹	Derived using CalPERS membership data for all funds.
Post Retirement Benefit Increase	The lessor of contract COLA or 2.30% until Purchasing Power Protection Allowance Floor on purchasing power applies, 2.30% thereafter.

¹ The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study. Mortality rates incorporate full generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on the table, refer to the 2021 CalPERS experience study report available on the CalPERS website.

All other actuarial assumptions used in the June 30, 2023 actuarial valuation were based on the 2021 CalPERS Experience Study, including updates to salary increase, mortality and retirement rates. Further details of the 2021 CalPERS Experience Study can be found on the CalPERS website under Forms and Publications.

Discount Rate – The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that the contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 12 – PENSION PLANS (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expense of 10 basis points. The expected real rates of return by asset class are as follows:

Asset Class:	Assumed Asset Allocation	Real Return ^{1,2}
Global Equity - Cap-Weighted	30.0%	4.54%
Global Equity - Non-Cap-Weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-Backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Assets	15.0%	3.21%
Leverage	-5.0%	-0.59%

(1) An expected inflation of 2.30% used for this period

(2) Figures are based on the 2021 Asset Liability Management study.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 12 – PENSION PLANS (Continued)

(c) *Changes in the Net Pension Liability*

The following table is based on the GASB 68 Accounting Valuation Report and shows the changes in the net pension liability for the Miscellaneous and Safety Plans (in thousands):

	Total Pension Liability	Plan Net Position	Net Pension Liability
<u>Miscellaneous Plan:</u>			
Balances reported at July 1, 2024	\$ 1,013,075	\$ 687,600	\$ 325,475
Changes for the year:			
Service cost	16,987	-	16,987
Interest on total pension liability	69,430	-	69,430
Differences between expected and actual experiences	12,256	-	12,256
Contributions from employer	-	38,294	(38,294)
Contributions from employees	-	9,383	(9,383)
Net investment income	-	66,434	(66,434)
Benefit payments, including refunds of employee contributions	(55,171)	(55,171)	-
Administrative expense	-	(560)	560
Net changes	43,502	58,380	(14,878)
Balances reported at June 30, 2025	1,056,577	745,980	310,597
<u>Safety Plan:</u>			
Balances reported at July 1, 2024	\$ 539,180	\$ 331,784	\$ 207,396
Changes for the year:			
Service cost	8,635	-	8,635
Interest on total pension liability	37,099	-	37,099
Differences between expected and actual experiences	9,808	-	9,808
Contributions from employer	-	19,635	(19,635)
Contributions from employees	-	4,203	(4,203)
Net investment income	-	31,917	(31,917)
Benefit payments, including refunds of employee contributions	(31,284)	(31,284)	-
Administrative expense	-	(270)	270
Net changes	24,258	24,201	57
Balances reported at June 30, 2025	563,438	355,985	207,453
Total	<u>\$ 1,620,015</u>	<u>\$ 1,101,965</u>	<u>\$ 518,050</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 12 – PENSION PLANS (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following table presents the net pension liability of the Plans as of the measurement date, calculated using the discount rate of 6.90%, compared to a discount rate that is 1 percentage point lower (5.90%) or 1 percentage point higher (7.90%). Amounts shown below are in thousands:

	Discount Rate - 1% (5.90%)	Current Discount Rate (6.90%)	Discount Rate + 1% (7.90%)
Miscellaneous Plan:			
Plan's Net Pension Liability	\$ 444,053	\$ 310,597	\$ 199,964
Safety Plan:			
Plan's Net Pension Liability	\$ 279,468	\$ 207,453	\$ 148,026

Plan Fiduciary Net Position – Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial report.

(d) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2025, the City recognized a pension expense of \$45.6 million and \$29.0 million for the Miscellaneous and Safety Plan, respectively, for a total of \$74.6 million. At June 30, 2025, the City reported pension related deferred outflows of resources and deferred inflows of resources for the Miscellaneous and Safety Plans from the following sources (in thousands):

	Deferred Outflows of Resources
<u>Miscellaneous Plan:</u>	
Pension contributions subsequent to measurement date	\$ 42,293
Difference between expected and actual experience	10,304
Net difference between projected and actual earnings on plan investments	9,925
Balance reported at June 30, 2025	62,522
<u>Safety Plan:</u>	
Pension contributions subsequent to measurement date	22,118
Difference between expected and actual experience	8,117
Net difference between projected and actual earnings on plan investments	4,883
Balance reported at June 30, 2025	35,118
Total, Miscellaneous and Safety Plans	\$ 97,640

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 12 – PENSION PLANS (Continued)

The \$64.4 million reported as deferred outflows of resources relates to contributions paid by the City from the year ended June 30, 2025, which is subsequent to the City's measurement date of June 30, 2024, for both the Miscellaneous and Safety Plans. This amount will be recognized as a reduction of the net pension liability in the year ending June 30, 2026.

The net differences reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in future pension expense as follows (in thousands):

Year Ending June 30,	Miscellaneous Plan	Safety Plan	Total
2026	\$ 5,886	\$ 4,835	\$ 10,721
2027	21,259	11,507	32,766
2028	(3,057)	(1,482)	(4,539)
2029	(3,859)	(1,860)	(5,719)
	<u>\$ 20,229</u>	<u>\$ 13,000</u>	<u>\$ 33,229</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

(a) General Information about the OPEB Plan

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

Unit	Hired Before	Retiree Coverage ¹	Dependent Coverage	Retired on or After	Retiree Contribution
Management & Professional ²	1/1/2004	100%	100%	5/1/2011	Flat rate ⁴
Police Management ²	1/1/2004	100%	100%	6/1/2012	Flat rate ⁴
Fire Fighters ²	1/1/2004	100%	100%	12/1/2011	Flat rate ⁴
Fire Chiefs Association ²	1/1/2004	100%	100%	1/1/2013	Flat rate ⁴
SEIU ²	1/1/2005	100%	100%	5/1/2011	Flat rate ⁴
Police Officers ³	1/1/2006	100%	100%	4/1/2015	Flat rate ⁴
Utilities Managers & Professional ²	12/1/2013	100%	100%	12/1/2013	Flat rate ⁴

¹ 100% of benefits if the employee has five years CalPERS service credit and the employee retired from the City.

² Effective 1/1/2007 plan capped at the second highest CalPERS Bay Area Basic plan premium.

³ Effective 3/1/2009 plan capped at the second highest CalPERS Bay Area Basic plan premium.

⁴ For the year ended June 20, 2023, City pays \$871-\$943 for employee, \$1,742-1,885 for employee +1, and \$2,260-\$2,444 for family.

Retiree contributions for units with the following hire dates are determined by Government Code Section 22893, 20 year graduated schedule:

Unit	Hired on or After	Retiree Coverage ¹	Dependent Coverage ²
Management & Professional	1/1/2004	50%-100%	Max. 90%
Police Management	1/1/2004	50%-100%	Max. 90%
Fire Fighters	1/1/2004	50%-100%	Max. 90%
Fire Chiefs Association	1/1/2004	50%-100%	Max. 90%
Utilities Managers & Professional	12/1/2013	50%-100%	Max. 90%
SEIU	1/1/2005	50%-100%	Max. 90%
Police Officers	1/1/2006	50%-100%	Max. 90%

¹ Employees with ten years of CalPERS service, at least five of which are at the City of Palo Alto, receive 50% of the specified employer contribution, with the City portion increasing by 5% for each additional year of service credit.

² The City will contribute an additional 90 percent of the weighted average of the additional premiums required for enrollment of those family members, during the benefit year to which the formula is applied.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

In fiscal year 2008, the City elected to participate in an irrevocable trust to provide a funding mechanism for retiree health benefits. The Trust, California Employers' Retirees Benefit Trust (CERBT), is administrated by CalPERS and managed by a separately appointed board, which is not under control of the City Council. This Trust is not considered a component unit of the City.

Employees Covered – Employees covered by the benefit terms as of June 30, 2024, the most recent information available, are as follows:

Inactive employees or beneficiaries currently receiving benefits	1,047
Inactive employees entitled to but not yet receiving benefits	94
Active employees	882
Total	<u>2,023</u>

Contributions – The City's OPEB funding policy is to contribute 100% or more of the actuarially determined contribution each year pursuant to City Council Resolution. For the year ended June 30, 2025, the City's contributions totaled \$19.5 million.

(b) Net OPEB Liability

The City's net OPEB liability is measured as the total OPEB liability, less the OPEB plan's fiduciary net position. The net OPEB liability is measured as of June 30, 2024, using an annual actuarial valuation as of June 30, 2023, rolled forward to June 30, 2024, using standard update procedures. A summary of principal assumptions and methods used to determine the net OPEB liability is shown below.

Valuation Date	June 30, 2023
Measurement Date	June 30, 2024
Actuarial Cost Method	Entry-Age, level percentage of payroll
Actuarial Assumptions:	
Discount Rate	6.25%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	2000-2019 CalPERS Experience Study
Medical Trend	Non-Medicare - 8.50% for 2025, decreasing to an ultimate rate of 3.45% in 2076 Medicare - 7.5% (Non-Kaiser) / 6.25% (Kaiser) for 2025, decreasing to an ultimate rate of 3.45% in 2076
Disability, Termination, Retirement	2021 CalPERS Experience Study
Mortality	2021 CalPERS Experience Study
Mortality Improvement	Post-retirement mortality projected fully generational with Society of Actuaries Scale MP-2021
Increase to Group 3 Flat Dollar Caps	1/2 of Medical Trend, not less than assumed inflation (2.50%)
Healthcare Participation for Future Retirees	Future retirees: 95-98%, based on Plan experience

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Discount Rate – The discount rate used to measure the total OPEB liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that the City’s contribution will be made equal to the actuarially determined contribution. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return for OPEB plan investments was 6.25%. The asset class target allocation and geometric real rates of return for each major asset class are summarized in the following table.

Asset Class	Current Target Allocation	Expected Real Rate of Return
Global Equity	49.0%	4.56%
Fixed Income	23.0	1.56
TIPS	5.0	-0.08
Commodities	3.0	1.22
REITS	20.0	4.06
Assumed long-term rate of inflation of 2.50%		

(c) Changes in the Net OPEB Liability

The following table shows the changes in the net OPEB liability (in thousands):

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance reported at June 30, 2024	\$ 276,572	\$ 156,115	\$ 120,457
Changes during the measurement period:			
Service cost	6,852	-	6,852
Interest on the total OPEB liability	17,249	-	17,249
Contributions - employer	-	16,841	(16,841)
Investment income	-	17,283	(17,283)
Administrative expenses	-	(91)	91
Benefit payments	(14,873)	(14,873)	-
Net changes	9,228	19,160	(9,932)
Balance reported at June 30, 2025	<u>\$ 285,800</u>	<u>\$ 175,275</u>	<u>\$ 110,525</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The following presents the net OPEB liability of the City as of the measurement date, calculated using the discount rate of 6.25%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.25%) or 1 percentage-point higher (7.25%) than the current discount rate:

Discount Rate -1% (5.25%)	Current Discount Rate (6.25%)	Discount Rate +1% (7.25%)
\$ 146,180	\$ 110,525	\$ 80,904

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trends rates that are 1% lower or 1% higher than the current healthcare cost trend rates.

Healthcare Trend Rate - 1%	Healthcare Trend Current Rate	Healthcare Trend Rate + 1%
\$ 75,995	\$ 110,525	\$ 152,763

OPEB Plan Fiduciary Net Position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CalPERS financial report.

(d) OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2025, the City recognized an OPEB expense of \$12.0 million for the OPEB plan. At June 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 19,470	\$ -
Differences between expected and actual experience	-	(5,408)
Changes in assumptions	12,337	(401)
Net differences between projected and actual earnings on plan investments	1,600	-
Total	<u>\$ 33,407</u>	<u>\$ (5,809)</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

The \$19.5 million reported as deferred outflows of resources relates to contributions made by the City during the year ended June 30, 2025, which is subsequent to the City's measurement date of June 30, 2024. This amount will be recognized as a reduction of the net OPEB liability in the fiscal year ending June 30, 2026.

The net differences reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in future OPEB expense as follows (in thousands):

<u>Fiscal Year Ending June 30,</u>	
2026	\$ (703)
2027	7,258
2028	1,750
2029	<u>(177)</u>
Total	<u>\$ 8,128</u>

NOTE 14 – DEFERRED COMPENSATION PLAN

City employees may defer a portion of their compensation under City sponsored Deferred Compensation Plans created in accordance with Internal Revenue Code Section 457. Under these Plans, participants are not taxed on the deferred portion of their compensation until distributed to them. Distributions may be made only at termination, retirement, death, in an emergency or partial as defined by the Plans.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

NOTE 15 – RISK MANAGEMENT

Coverage

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

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

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 15 – RISK MANAGEMENT (Continued)

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

The City is a member of the Authority for California Cities Excess Liability (ACCEL), which provides excess general liability insurance coverage, including auto liability, up to \$65 million per occurrence. The City retains the risk for the first \$1.0 million in losses for each occurrence under various policies. California municipalities' liability claim costs have significantly increased all cities' costs, and have caused insurance underwriters to pull back from the California insurance market which resulted in a lower amount of insurance limits available to the City.

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

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

During the year ended June 30, 2025, the City paid \$4.9 million to ACCEL for current year coverage, which included an increase for the pool's shared layer of coverage and cost for excess liability insurance.

Audited financial statements are available from ACCEL at 560 Mission Street, 6th floor, San Francisco, CA 94105.

Claims Liability

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

The City's liability for uninsured claims is limited to dental, general liability, and workers' compensation claims, as discussed above. Dental liability is based on a percentage of current year actual expense. General and workers' compensation liabilities are based on the results of actuarial studies, and include amounts for claims incurred but not reported as follows as of June 30 (in thousands):

	Year Ended June 30	
	2025	2024
Beginning balance	\$ 31,950	\$ 32,400
Claims expense, including claims incurred but not reported (IBNR)	11,588	4,718
Claims paid	(8,925)	(5,168)
Ending balance	<u>\$ 34,613</u>	<u>\$ 31,950</u>
Current portion	<u>\$ 7,648</u>	<u>\$ 6,894</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 15 – RISK MANAGEMENT (Continued)

The City has not incurred a claim that has exceeded its insurance coverage limits in any of the last three years, nor have there been any significant reductions in insurance coverage.

NOTE 16 – JOINT VENTURES

General

The City participates in joint ventures through Joint Powers Authorities (JPAs) established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these JPAs exercise full powers and authorities within the scope of the related Joint Powers Agreement, including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the JPAs, including the long-term debt in which the City participates in repayment, are not obligations and liabilities of the City, and are not reported on the City's financial statements.

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

Northern California Power Agency

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

During the year ended June 30, 2025, the City incurred expenses totaling \$105.4 million for purchased power and assessments earned by NCPA.

The City's interest in NCPA projects and reserves, as computed by NCPA, was \$10.6 million at June 30, 2025. This amount represents the City's portion of funds, which resulted from the settlement with third parties of issues with financial consequences and reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employees' post-retirement medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion, which will require funding to cover debt service and operational costs in excess of the expected value of the electric power. The General Operating Reserve (GOR) is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. There are no funds on deposit with NCPA as a reserve against these contingencies identified by NCPA.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 16 – JOINT VENTURES (Continued)

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

NCPA's financial statements can be obtained from NCPA, 651 Commerce Drive, Roseville, CA 95678.

Calaveras Hydroelectric Project

In July 1981, NCPA agreed with Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments to NCPA began in February 1990 when the project was declared substantially complete and power was delivered to the participants. Under its power purchase agreement with NCPA, the City is obligated to pay 22.9% of this Project's debt service and operating costs. At June 30, 2025, the book value of this Project's plant, equipment and other assets was \$211.5 million, while its long-term debt totaled \$143.9 million and other liabilities totaled \$64.9 million. The City's share of the Project's long-term debt amounted to \$33.0 million at June 30, 2025. During the fiscal year, the City paid its share of the annual debt service of \$4.2 million.

Transmission Agency of Northern California (TANC)

The City is a member of a joint powers agreement with 14 other entities in Transmission Agency of Northern California (TANC). TANC's purpose is to provide electrical transmission or other facilities for the use of its members. While governed by its members, none of TANC's obligations are those of its members unless expressly assumed by them. The City was obligated to pay 4% of TANC's debt-service and operating costs. However, a Resolution was approved authorizing the execution of a Long-Term Layoff Agreement (LTLA) between the Cities of Palo Alto and Roseville. These two agencies desired to "layoff" their entitlement rights to the California-Oregon Transmission Project (COTP) (and Roseville's South of Tesla entitlement rights) for a period of 15 years to those acquiring members (Sacramento Municipal Utility District, Turlock Irrigation District, and Modesto Irrigation District). The effective date of this Agreement was February 1, 2009. As a result, the City is not obligated to pay TANC's debt-service and operating costs starting February 1, 2009, for a period of fifteen years. In 2024, this agreement was extended for another 10 years through 2033. Starting in 2024, the parties acquiring the layoff began paying the City an annual payment of \$550,000 for five years and then \$800,000 for the remaining five years.

TANC's financial statements can be obtained from TANC, P.O. Box 15129, Sacramento, CA 95851.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 16 – JOINT VENTURES (Continued)

Bay Area Water Supply and Conservation Agency (BAWSCA)

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

In 2013 the City participated in a debt issuance by BAWSCA. The debt was issued to repay certain long-term costs associated with the San Francisco Public Utilities Commission (SFPUC) water supply contract. During the fiscal year, the City paid its share of the annual debt service of \$1.6 million, which will vary based on annual water purchases of the City compared to other BAWSCA agencies.

BAWSCA's financial statements can be obtained from BAWSCA, 155 Bovet Road, Suite 650, San Mateo, California 94402.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

City of Palo Alto Regional Water Quality Control Plant – The cities of Palo Alto, Mountain View and Los Altos (the Partners) participate jointly in the cost of maintaining and operating the City of Palo Alto Regional Water Quality Control Plant and related system (the Plant). The City is the owner and administrator of the Plant, which provides the transmission, treatment and disposal of sewage for the Partners. The cities of Mountain View and Los Altos are entitled to use a portion of the capacity of the Plant for a specified period of time. Each partner has the right to rent unused capacity from/to the other partners. The expenses of operations and maintenance are paid quarterly by each partner based on its pro rata share of treatment costs. Additionally, joint system revenues are shared by the partners in the same ratio as expenses are paid. The amended agreement will terminate on December 31, 2060, but may be terminated by any partner upon ten years' written notice to the other partners. All sewage treatment property, plant and equipment are included in the Wastewater Treatment Enterprise Fund's capital assets balance. If the City initiates the termination of the contracts, it is required to pay the other partners their unamortized contribution towards the capital assets.

GreenWaste of Palo Alto – GreenWaste of Palo Alto is the City's contractor for waste collection, transportation, and processing services. The agreement expires on June 30, 2026. The base compensation is adjusted annually based on CPI indicators stipulated in the contract. The total payments to GreenWaste of Palo Alto were \$21.8 million during fiscal year 2025, representing the total cost services provided.

GreenWaste Recovery – GreenWaste Recovery is the City's contractor for processing and recovering recyclable and compostable materials from the municipal solid waste collected in the City effective January 1, 2022. This agreement expires June 30, 2030, with an option to extend for up to two years. The base compensation for GreenWaste Recovery is adjusted annually based on CPI indicators stipulated in the agreement. In fiscal year 2025 payments to GreenWaste Recovery were \$4.2 million.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 17 – COMMITMENTS AND CONTINGENCIES (Continued)

Electric Power Supply Purchase Agreements – The City has numerous power purchase agreements with power producers to purchase capacity and energy to supply a portion of its load requirements. As of June 30, 2025, the approximate minimum obligations for the contracts, assuming the energy is delivered over the next five years, are as follows:

Fiscal Year	Projected Obligation
2026	\$60.3 million
2027	\$58.5 million
2028	\$59.7 million
2029	\$59.5 million
2030	\$60.4 million

Contractual Commitments beyond 2025 (Electricity) – Several of the City’s purchase power and transmission contracts extend beyond the five-year summary presented above. These contracts expire between 2026 and 2051 and provide for power under various terms and conditions. The City also has a new geothermal power purchase agreement that is scheduled to start in January 2025. The City estimates that its annual minimum commitments under all of its contracts, assuming the energy is delivered, ranges between \$60.3 million in 2026 and \$61.9 million in 2033. The City’s largest single purchase power source is the Western Base Resource contract, whereby the City receives 12.06% of the amount of energy made available by Western, after meeting Central Valley Project use requirements, in any given year at a 12.06% share of their revenue requirement. The Western contract was extended during the fiscal year from December 2024 through December 2054. The extension provides the City the ability to exit or reduce the contract every five years.

Gas Transmission and Local Transportation Rates – The City relies on Pacific Gas and Electric Company’s (PG&E) natural gas pipeline infrastructure, including both high-pressured transmission and medium-pressure local transportation, to move gas from the California border to the City’s distribution system. Rates are determined through proceedings at the California Public Utilities Commission. Gas transmission rates declined by 13.6%, whereas local transportation rates increased by 47%, between fiscal year 2024 and fiscal year 2025. The gas transmission and local transportation rates are expected to increase by 1.3% and increase by 2.4%, respectively, in fiscal year 2026.

San Francisco Public Utilities Commission – The City purchases water from the San Francisco Public Utilities Commission (SFPUC) under a Water Supply Agreement (WSA) terminating in 2034. The City’s wholesale water rate under this contract is determined by a ratemaking process under the authority of the SFPUC, with contractual limitations on the types of costs that may be allocated to wholesale water purchasers like the City. The WSA contains certain restrictions regarding water purchases from other water suppliers, though those restrictions do not apply to recycled water or emergency water supplies. The City’s cost of water under this contract is projected to increase by 2.3% for fiscal year 2026, increase 1.0% in fiscal year 2027, increase 1.2% in fiscal year 2028, increase 5.1% in fiscal year 2029, and increase 8.0% in fiscal year 2030. However, this forecast is highly uncertain due to uncertainty regarding drought rebound impacts on water demand in the region.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2025

NOTE 17 – COMMITMENTS AND CONTINGENCIES (Continued)

Litigation

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney, there is no pending litigation, claims or assessments that are likely to have a materially adverse effect on the City's financial condition.

Green V. City of Palo Alto is a class action lawsuit was filed against the City in October 2016 that challenged the City's gas and electric rates as having violated Proposition 26, which mandates certain criteria for tax levies. On June 24, 2021, the trial court entered judgment partially against the City, ordering the City to pay \$12.6 million to a common fund to refund gas ratepayers and for payment of incurred litigation costs. Both the City and the plaintiffs appealed the trial court's ruling.

During the appeal, the parties settled, with the City agreeing to pay \$17.3 million to customers who received gas service within specified periods. The trial court approved the settlement on December 21, 2023. In March 2024 and March 2025, the City distributed the first and second (final) set of refunds in accordance with the terms of the settlement agreement. For the fiscal year ended June 30, 2025, the City has paid all settlements per the agreement and has no related outstanding liability.

Grant Programs

The City participates in various federal grant programs. which are subject to program compliance audits pursuant to the provisions of the Title 2 U.S. *Code of Federal Regulation* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Accordingly, the City's compliance with applicable grant requirements will, in some cases, be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

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CITY OF PALO ALTO
Required Supplementary Information (Unaudited)
Last 10 Fiscal Years

I. SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS – MISCELLANEOUS PLAN
(In thousands)

Fiscal year	2024-25	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16
Measurement Period	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15
Total pension liability										
Service cost	\$ 16,987	\$ 15,581	\$ 15,439	\$ 15,012	\$ 14,267	\$ 15,045	\$ 14,724	\$ 14,423	\$ 12,582	\$ 12,183
Interest	69,430	66,625	64,016	62,769	59,995	57,523	54,903	52,831	51,531	49,345
Changes in benefit terms	-	814	-	-	-	-	-	-	-	-
Changes of assumptions	-	-	26,819	-	-	-	(5,673)	42,239	-	(11,552)
Difference between expected and actual experience	12,256	9,352	(6,449)	9,554	4,850	6,230	4,271	(6,378)	757	3,507
Benefit payments, including refunds of employee contributions	(55,171)	(53,839)	(49,926)	(47,027)	(43,781)	(41,124)	(37,624)	(36,405)	(34,825)	(32,980)
Net change in total pension liability	43,502	38,533	49,899	40,308	35,331	37,674	30,601	66,710	30,045	20,503
Total pension liability - beginning	1,013,075	974,542	924,643	884,335	849,004	811,330	780,729	714,019	683,974	663,471
Total pension liability - ending (a)	\$ 1,056,577	\$ 1,013,075	\$ 974,542	\$ 924,643	\$ 884,335	\$ 849,004	\$ 811,330	\$ 780,729	\$ 714,019	\$ 683,974
Plan fiduciary net position										
Contributions - employer	\$ 38,294	\$ 37,171	\$ 33,219	\$ 31,005	\$ 28,889	\$ 25,423	\$ 23,342	\$ 20,638	\$ 18,840	\$ 18,610
Contributions - employee	9,383	8,172	7,426	7,295	7,189	6,939	6,654	6,314	5,812	5,730
Net investment income	66,434	40,882	(54,761)	135,446	28,735	36,322	43,690	53,259	2,464	10,597
Benefit payments, including refunds of employee contributions	(55,171)	(53,839)	(49,926)	(47,027)	(43,781)	(41,124)	(37,624)	(36,405)	(34,825)	(32,980)
Administrative expense	(560)	(482)	(449)	(593)	(809)	(390)	(799)	(694)	(291)	(538)
Others	-	(2)	-	-	-	1	(1,518)	30	-	-
Net change in fiduciary net position	58,380	31,902	(64,491)	126,126	20,223	27,171	33,745	43,142	(8,000)	1,419
Plan fiduciary net position - beginning	687,600	655,698	720,189	594,063	573,840	546,669	512,924	469,782	477,782	476,363
Plan fiduciary net position - ending (b)	\$ 745,980	\$ 687,600	\$ 655,698	\$ 720,189	\$ 594,063	\$ 573,840	\$ 546,669	\$ 512,924	\$ 469,782	\$ 477,782
Plan net pension liability/(asset) - Ending (a) - (b)	\$ 310,597	\$ 325,475	\$ 318,844	\$ 204,454	\$ 290,272	\$ 275,164	\$ 264,661	\$ 267,805	\$ 244,237	\$ 206,192
Plan fiduciary net position as a percentage of total pension liability	70.60%	67.87%	67.28%	77.89%	67.18%	67.59%	67.38%	65.70%	65.79%	69.85%
Covered payroll	\$ 94,530	\$ 84,494	\$ 81,951	\$ 87,227	\$ 81,017	\$ 82,573	\$ 80,634	\$ 77,606	\$ 73,722	\$ 69,837
Plan net pension liability/(asset) as a percentage of covered payroll	328.57%	385.20%	389.07%	234.39%	358.29%	333.24%	328.23%	345.08%	331.29%	295.25%

Notes to Schedule:

Benefit changes - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2023 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit (a.k.a. Golden Handshake).

Change in assumptions - During measurement period 2014, the discount rate was 7.50%. During measurement period 2015, the discount rate was increased from 7.50 percent to 7.65 percent. There is no change in discount rate during measurement period 2016. During measurement period 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. During measurement period 2018, demographic assumptions and inflation rate were changed in accordance to the 2017 CalPERS Experience Study. There are no change in assumptions during measurement periods 2019, 2020 or 2021. During measurement period 2022, the discount rate was reduced from 7.15% to 6.90%, inflation rate was reduced from 2.50% to 2.30%, and demographic assumptions were changed in accordance to the 2021 CalPERS Experience Study. There are no change in assumptions during measurement periods 2023 and 2024.

CITY OF PALO ALTO
Required Supplementary Information (Unaudited)
Last 10 Fiscal Years

II. SCHEDULE OF PENSION CONTRIBUTIONS– MISCELLANEOUS PLAN
(In thousands)

Fiscal Year	2024-25	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16
Actuarially determined contribution	\$ 42,293	\$ 38,294	\$ 37,171	\$ 33,219	\$ 31,005	\$ 28,889	\$ 25,423	\$ 23,342	\$ 20,638	\$ 18,840
Actual contribution	(42,293)	(38,294)	(37,171)	(33,219)	(31,005)	(28,889)	(25,423)	(23,342)	(20,638)	(18,840)
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 89,292	\$ 94,530	\$ 84,494	\$ 81,951	\$ 87,227	\$ 81,017	\$ 82,573	\$ 80,634	\$ 77,606	\$ 73,722
Contributions as percentage of covered payroll	47.36%	40.51%	43.99%	40.54%	35.55%	35.66%	30.79%	28.95%	26.59%	25.56%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2025 contribution rates are as follows:

ADC for fiscal year	June 30, 2025
Actuarial valuation date	June 30, 2022
Actuarial cost method	Entry-Age Normal Cost Method
Asset valuation method	Actuarial value of assets
Inflation	2.30%
Salary increases	Varies by entry age and services
Payroll growth	2.80%
Investment rate of return	6.80%, net of pension plan investment and administrative expenses, includes inflation.
Retirement age	The probabilities of retirement are based on the 2021 CalPERS Experience Study
Mortality	The probabilities of mortality are based on the 2021 CalPERS Experience Study. Mortality rates incorporate full generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries.

CITY OF PALO ALTO
Required Supplementary Information (Unaudited)
Last 10 Fiscal Years

III. SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS – SAFETY PLAN
(In thousands)

Fiscal year	2024-25	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16
Measurement Period	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15
Total pension liability										
Service cost	\$ 8,635	\$ 8,076	\$ 8,395	\$ 8,180	\$ 7,898	\$ 7,259	\$ 7,168	\$ 6,584	\$ 5,916	\$ 5,959
Interest	37,099	35,505	34,037	33,560	32,469	31,066	29,871	28,272	27,816	27,047
Changes in benefit terms	-	254	-	-	-	-	-	-	-	-
Changes of assumptions	-	-	16,004	-	-	-	(1,374)	22,566	-	(6,327)
Difference between expected and actual experience	9,808	7,852	(6,264)	1,197	6,314	3,841	11,604	(2,790)	(1,516)	75
Benefit payments, including refunds of employee contributions	(31,284)	(29,852)	(28,355)	(26,959)	(25,948)	(24,757)	(23,636)	(22,413)	(21,669)	(21,148)
Net change in total pension liability	24,258	21,835	23,817	15,978	20,733	17,409	23,633	32,219	10,547	5,606
Total pension liability - beginning	539,180	517,345	493,528	477,550	456,817	439,408	415,775	383,556	373,009	367,403
Total pension liability - ending (a)	\$ 563,438	\$ 539,180	\$ 517,345	\$ 493,528	\$ 477,550	\$ 456,817	\$ 439,408	\$ 415,775	\$ 383,556	\$ 373,009
Plan fiduciary net position										
Contributions - employer	\$ 19,635	\$ 19,224	\$ 17,376	\$ 15,703	\$ 14,297	\$ 12,370	\$ 11,030	\$ 10,220	\$ 9,403	\$ 8,617
Contributions - employee	4,203	3,977	3,480	3,490	3,459	3,225	2,799	2,475	2,059	2,047
Net investment income	31,917	19,858	(26,833)	66,683	14,310	18,217	22,724	28,112	1,259	5,774
Benefit payments, including refunds of employee contributions	(31,284)	(29,852)	(28,355)	(26,959)	(25,948)	(24,757)	(23,636)	(22,413)	(21,669)	(21,148)
Administrative expense	(270)	(234)	(220)	(295)	(407)	(201)	(418)	(370)	(157)	(290)
Others	-	2	-	-	-	1	(794)	(30)	-	-
Net change in fiduciary net position	24,201	12,975	(34,552)	58,622	5,711	8,855	11,705	17,994	(9,105)	(5,000)
Plan fiduciary net position - beginning	331,784	318,809	353,361	294,739	289,028	280,173	268,468	250,474	259,579	264,579
Plan fiduciary net position - ending (b)	\$ 355,985	\$ 331,784	\$ 318,809	\$ 353,361	\$ 294,739	\$ 289,028	\$ 280,173	\$ 268,468	\$ 250,474	\$ 259,579
Plan net pension liability/(asset) - Ending (a) - (b)	\$ 207,453	\$ 207,396	\$ 198,536	\$ 140,167	\$ 182,811	\$ 167,789	\$ 159,235	\$ 147,307	\$ 133,082	\$ 113,430
Plan fiduciary net position as a percentage of total pension liability	63.18%	61.53%	61.62%	71.60%	61.72%	63.27%	63.76%	64.57%	65.30%	69.59%
Covered payroll	\$ 28,724	\$ 25,705	\$ 26,466	\$ 27,843	\$ 26,189	\$ 24,263	\$ 24,131	\$ 21,906	\$ 21,822	\$ 21,912
Plan net pension liability/(asset) as a percentage of covered payroll	722.23%	806.83%	750.15%	503.42%	698.04%	691.54%	659.88%	672.45%	609.85%	517.66%

Notes to Schedule:

Benefit changes - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2023 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit (a.k.a. Golden Handshake).

Change in assumptions - During measurement period 2014, the discount rate was 7.50%. During measurement period 2015, the discount rate was increased from 7.50 percent to 7.65 percent. There is no change in discount rate during measurement period 2016. During measurement period 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. During measurement period 2018, demographic assumptions and inflation rate were changed in accordance to the 2017 CalPERS Experience Study. There are no change in assumptions during measurement periods 2019, 2020 or 2021. During measurement period 2022, the discount rate was reduced from 7.15% to 6.90%, inflation rate was reduced from 2.50% to 2.30%, and demographic assumptions were changed in accordance to the 2021 CalPERS Experience Study. There are no change in assumptions during measurement periods 2023 and 2024.

CITY OF PALO ALTO
Required Supplementary Information (Unaudited)
Last 10 Fiscal Years

IV. SCHEDULE OF PENSION CONTRIBUTIONS – SAFETY PLAN
(In thousands)

Fiscal Year	2024-25	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16
Actuarially determined contribution	\$ 22,118	\$ 19,635	\$ 19,224	\$ 17,376	\$ 15,703	\$ 14,297	\$ 12,370	\$ 11,030	\$ 10,220	\$ 9,403
Actual contribution	(22,118)	(19,635)	(19,224)	(17,376)	(15,703)	(14,297)	(12,370)	(11,030)	(10,220)	(9,403)
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 27,165	\$ 28,724	\$ 25,705	\$ 26,466	\$ 27,843	\$ 26,189	\$ 24,263	\$ 24,131	\$ 21,906	\$ 21,822
Contributions as percentage of covered payroll	81.42%	68.36%	74.79%	65.65%	56.40%	54.59%	50.98%	45.71%	46.65%	43.09%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2025 contribution rates are as follows:

ADC for fiscal year	June 30, 2025
Actuarial valuation date	June 30, 2022
Actuarial cost method	Entry-Age Normal Cost Method
Asset valuation method	Actuarial value of assets
Inflation	2.30%
Salary increases	Varies by entry age and services
Payroll growth	2.80%
Investment rate of return	6.80%, net of pension plan investment and administrative expenses, includes inflation.
Retirement age	The probabilities of retirement are based on the 2021 CalPERS Experience Study
Mortality	The probabilities of mortality are based on the 2021 CalPERS Experience Study. Mortality rates incorporate full generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries.

CITY OF PALO ALTO
Required Supplementary Information (Unaudited)
Last 8 Fiscal Years*

V. SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
(In thousands)

Fiscal year	2024-25	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18
Measurement Period	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17
Total OPEB liability								
Service cost	\$ 6,852	\$ 5,829	\$ 5,673	\$ 6,448	\$ 6,366	\$ 6,622	\$ 6,429	\$ 6,242
Interest	17,249	15,640	15,195	16,959	16,572	17,292	16,546	15,853
Changes in benefit terms	-	-	-	-	-	972	-	-
Changes of assumptions	-	18,583	-	2,596	(4,426)	7,057	-	-
Difference between expected and actual experience	-	(752)	-	(20,122)	-	(29,907)	-	-
Benefit payments, including refunds of employee contributions	(14,873)	(14,294)	(13,499)	(12,977)	(12,728)	(12,157)	(12,104)	(11,916)
Net change in total OPEB liability	9,228	25,006	7,369	(7,096)	5,784	(10,121)	10,871	10,179
Total OPEB liability - beginning	276,572	251,566	244,197	251,293	245,509	255,630	244,759	234,580
Total OPEB liability - ending (a)	\$ 285,800	\$ 276,572	\$ 251,566	\$ 244,197	\$ 251,293	\$ 245,509	\$ 255,630	\$ 244,759
Plan fiduciary net position								
Contributions - employer	\$ 16,841	\$ 16,364	\$ 17,790	\$ 14,592	\$ 16,475	\$ 15,997	\$ 21,349	\$ 14,739
Net investment income	17,283	9,353	(22,256)	34,772	4,327	6,852	7,519	8,628
Benefit payments, including refunds of employee contributions	(14,873)	(14,294)	(13,499)	(12,977)	(12,728)	(12,157)	(12,104)	(11,916)
Administrative expense	(91)	(80)	(70)	(75)	(58)	(23)	(204)	(44)
Net change in fiduciary net position	19,160	11,343	(18,035)	36,312	8,016	10,669	16,560	11,407
Plan fiduciary net position - beginning	156,115	144,772	162,807	126,495	118,479	107,810	91,250	79,843
Plan fiduciary net position - ending (b)	\$ 175,275	\$ 156,115	\$ 144,772	\$ 162,807	\$ 126,495	\$ 118,479	\$ 107,810	\$ 91,250
Plan net OPEB liability/(asset) - Ending (a) - (b)	\$ 110,525	\$ 120,457	\$ 106,794	\$ 81,390	\$ 124,798	\$ 127,030	\$ 147,820	\$ 153,509
Plan fiduciary net position as a percentage of total OPEB liability	61.33%	56.45%	57.55%	66.67%	50.34%	48.26%	42.17%	37.28%
Covered employee payroll	\$ 152,578	\$ 130,454	\$ 123,304	\$ 120,869	\$ 125,676	\$ 118,014	\$ 119,090	\$ 118,774
Plan net OPEB liability/(asset) as a percentage of covered employee payroll	72.44%	92.34%	86.61%	67.34%	99.30%	107.64%	124.12%	129.24%

Notes to Schedule:

Benefit changes - The figures above do not include any liability that may have resulted from plan changes which occurred after the measurement dates.

Changes in assumptions - During measurement period 2020, demographic assumptions were change in accordance to the 2017 CalPERS Experience Study while mortality improvement scale was updated to Scale MP-2019. During measurement period 2021, (1) the discount rate was updated based upon newer capital market assumptions, (2) medical plan at retirement percentages were updated and Medicare advantage plan implied subsidy was excluded, (3) medical trend rates for Kaiser Senior Advantage was decreased, (4) Experience Study was updated to 2021 CalPERS Experience Study, (5) 25 basis point inflation rate was decreased which reduce the discount rate and long term rate of return, and (6) the mortality improvement scale was updated to Scale MP-2021. There are no change in assumptions during measurement period 2022. During measurement period 2023, medical trend rates were updated. There are no change in assumptions during measurement period 2024.

* Fiscal year ended June 30, 2018 was the first year of implementation of GASB Statement No. 75, therefore only eight years of information is shown.

CITY OF PALO ALTO
Required Supplementary Information (Unaudited)
Last 9 Fiscal Years*

VI. SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
(In thousands)

Fiscal Year	2024-25	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17
Actuarially Determined									
Contributions	\$ 16,416	\$ 11,749	\$ 11,428	\$ 15,013	\$ 14,566	\$ 16,482	\$ 15,997	\$ 16,938	\$ 16,365
Actual contribution	(19,470)	(16,841)	(16,364)	(17,790)	(14,592)	(16,475)	(15,997)	(21,349)	(14,739)
Contribution deficiency/(excess)	\$ (3,054)	\$ (5,092)	\$ (4,936)	\$ (2,777)	\$ (26)	\$ 7	\$ -	\$ (4,411)	\$ 1,626
Covered employee payroll	\$ 169,920	\$ 152,578	\$ 130,454	\$ 123,304	\$ 120,869	\$ 125,676	\$ 118,014	\$ 119,090	\$ 118,774
Contributions as percentage of covered employee payroll	11.46%	11.04%	12.54%	14.43%	12.07%	13.11%	13.56%	17.93%	12.41%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2025 contribution rates are as follows:

ADC for fiscal year	June 30, 2025
Actuarial valuation date	June 30, 2023
Actuarial cost method	Entry-Age, level percentage of payroll
Amortization method	Level percent of pay
Amortization period	20-year fixed period for 2024/25
Asset valuation method	Fair value, no smoothing
Inflation	2.50%
Investment rate of return	6.25%
Medical trend	Non-Medicare - 8.50% for 2025, decreasing to an ultimate rate of 3.45% in 2076 Medicare - 7.5% (Non-Kaiser) / 6.25% (Kaiser) for 2025, decreasing to an ultimate rate of 3.45% in 2076
Mortality	2021 CalPERS Experience Study
Mortality Improvement	Post-retirement mortality projected fully generational with Society of Actuaries Scale MP-2021

* Fiscal year ended June 30, 2018 was the first year of implementation of GASB Statement No. 75, therefore only nine years of information is shown.

CITY OF PALO ALTO
Non-major Governmental Funds
Combining Balance Sheet
June 30, 2025
(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total Other Governmental Funds
ASSETS:				
Cash and investments available for operations	\$ 50,720	\$ 3,633	\$ 2,638	\$ 56,991
Receivables, net:				
Accounts and intergovernmental	687	-	-	687
Interest	345	23	18	386
Notes and loan receivable	59,674	-	-	59,674
Deposits	5	-	-	5
Restricted cash and investments with fiscal agents	-	9	-	9
Total assets	<u>\$ 111,431</u>	<u>\$ 3,665</u>	<u>\$ 2,656</u>	<u>\$ 117,752</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable and accruals	\$ 534	\$ -	21	\$ 555
Accrued salaries and benefits	47	-	-	47
Unearned revenue	253	-	-	253
Due to other funds	501	-	-	501
Advances from other funds	2,900	-	-	2,900
Total liabilities	<u>4,235</u>	<u>-</u>	<u>21</u>	<u>4,256</u>
Fund balances:				
Nonspendable				
Eyerly family	-	-	2,635	2,635
Restricted for:				
Transportation mitigation	17,218	-	-	17,218
Federal revenue	7,610	-	-	7,610
Local law enforcement	520	-	-	520
Public benefit	4,715	-	-	4,715
Debt service	-	3,665	-	3,665
Committed for:				
Developer impact fee	11,437	-	-	11,437
Housing In-Lieu	65,922	-	-	65,922
Downtown business	54	-	-	54
Unassigned	(280)	-	-	(280)
Total fund balances	<u>107,196</u>	<u>3,665</u>	<u>2,635</u>	<u>113,496</u>
Total liabilities and fund balances	<u>\$ 111,431</u>	<u>\$ 3,665</u>	<u>\$ 2,656</u>	<u>\$ 117,752</u>

CITY OF PALO ALTO
Non-major Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2025
(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total Other Governmental Funds
REVENUES:				
Property tax	\$ -	\$ 4,325	\$ -	\$ 4,325
Other taxes and fines	3,935	-	-	3,935
Intergovernmental	2,819	-	-	2,819
Licenses, permits and fees:				
University Avenue Parking	1,949	-	-	1,949
California Avenue Parking	265	-	-	265
Other licenses, permits and fees	4,600	-	-	4,600
Investment earnings	3,336	120	147	3,603
Housing In-Lieu - residential	2,778	-	-	2,778
Other revenue	992	-	-	992
Total revenues	<u>20,674</u>	<u>4,445</u>	<u>147</u>	<u>25,266</u>
EXPENDITURES:				
Current:				
City Manager	32	-	-	32
Administrative Services	329	-	-	329
Public Works	2,238	-	-	2,238
Planning and Development Services	585	-	-	585
Office of Transportation	1,388	-	-	1,388
Police	1,816	-	-	1,816
Community Services	707	-	-	707
Non-Departmental	353	-	12	365
Debt service:				
Principal retirement	84	5,075	-	5,159
Interest and fiscal charges	98	6,883	-	6,981
Total expenditures	<u>7,630</u>	<u>11,958</u>	<u>12</u>	<u>19,600</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>13,044</u>	<u>(7,513)</u>	<u>135</u>	<u>5,666</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	587	7,900	-	8,487
Transfers out	(14,184)	-	-	(14,184)
Total other financing sources (uses)	<u>(13,597)</u>	<u>7,900</u>	<u>-</u>	<u>(5,697)</u>
Change in fund balances	(553)	387	135	(31)
FUND BALANCES, BEGINNING OF YEAR	<u>107,749</u>	<u>3,278</u>	<u>2,500</u>	<u>113,527</u>
FUND BALANCES, END OF YEAR	<u>\$ 107,196</u>	<u>\$ 3,665</u>	<u>\$ 2,635</u>	<u>\$ 113,496</u>

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Street Improvement

This fund accounts for revenues received from state gas tax. Allocations must be spent on the construction and maintenance of the road network system of the City.

Federal and State Revenue

This fund accounts for grant funds received under the Community Development Act of 1974, HOME Investment Grant Programs, Local Housing Trust, and Permanent Local Housing Allocation for activities approved and subject to federal and state regulations.

Housing In-Lieu

This fund accounts for revenues from commercial and residential developers to provide housing under the City's Below Market Rate program.

Special Districts

This fund accounts for revenues from parking permits and for maintenance of various parking lots within the City's parking districts.

Transportation Mitigation

This fund accounts for revenues from fees or contributions required for transportation mitigation issues encountered as a result of City development.

Local Law Enforcement

This fund accounts for revenues received in support of City's law enforcement program.

Asset Seizure

This fund accounts for seized property and funds associated with drug trafficking. Under California Assembly Bill No. 4162, the monies are released to the City for specific expenditures related to law enforcement activities.

Developer Impact Fee

This fund accounts for fees imposed on new developments to be used for parks, community centers and libraries.

Downtown Business Development District

The Downtown Business Development District Fund was established to account for the activities of the Palo Alto Downtown Business Development District, which was established to enhance the viability of the downtown business district.

Public Benefit

This fund accounts for the activities of the Stanford University Medical Center (SUMC) Development Agreement (DA) whereby SUMC will enhance and expand their facilities and the City will grant SUMC the right to develop the facilities in accordance with the DA.

CITY OF PALO ALTO
Non-major Special Revenue Funds
Combining Balance Sheet
June 30, 2025
(Amounts in thousands)

	Street Improvement	Federal and State Revenue	Housing In-Lieu	Special Districts
ASSETS:				
Cash and investments available for operations	\$ -	\$ 560	\$ 13,359	\$ 2,781
Receivables, net:				
Accounts and intergovernmental	490	197	-	-
Interest	-	-	81	16
Notes and loan receivable	-	7,134	52,540	-
Deposits	-	-	-	-
Total assets	<u>\$ 490</u>	<u>\$ 7,891</u>	<u>\$ 65,980</u>	<u>\$ 2,797</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable and accruals	-	281	56	128
Accrued salaries and benefits	-	-	2	38
Unearned revenue	-	-	-	-
Due to other funds	500	-	-	-
Advances from other funds	-	-	-	2,900
Total liabilities	<u>500</u>	<u>281</u>	<u>58</u>	<u>3,066</u>
Fund balances:				
Restricted				
Transportation mitigation	-	-	-	-
Federal and State revenue	-	7,610	-	-
Local law enforcement	-	-	-	-
Public benefit	-	-	-	-
Committed				
Developer impact fee	-	-	-	-
Housing In-Lieu	-	-	65,922	-
Downtown business	-	-	-	-
Unassigned	<u>(10)</u>	<u>-</u>	<u>-</u>	<u>(269)</u>
Total fund balances	<u>(10)</u>	<u>7,610</u>	<u>65,922</u>	<u>(269)</u>
Total liabilities and fund balances	<u>\$ 490</u>	<u>\$ 7,891</u>	<u>\$ 65,980</u>	<u>\$ 2,797</u>

Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total Special Revenue Funds
\$ 17,094	\$ 763	\$ -	\$ 11,438	\$ 54	\$ 4,671	\$ 50,720
-	-	-	-	-	-	687
124	5	-	75	-	44	345
-	-	-	-	-	-	59,674
-	5	-	-	-	-	5
<u>\$ 17,218</u>	<u>\$ 773</u>	<u>\$ -</u>	<u>\$ 11,513</u>	<u>\$ 54</u>	<u>\$ 4,715</u>	<u>\$ 111,431</u>
-	-	-	69	-	-	\$ 534
-	-	-	7	-	-	47
-	253	-	-	-	-	253
-	-	1	-	-	-	501
-	-	-	-	-	-	2,900
-	253	1	76	-	-	4,235
17,218	-	-	-	-	-	17,218
-	-	-	-	-	-	7,610
-	520	-	-	-	-	520
-	-	-	-	-	4,715	4,715
-	-	-	11,437	-	-	11,437
-	-	-	-	-	-	65,922
-	-	-	-	54	-	54
-	-	(1)	-	-	-	(280)
<u>17,218</u>	<u>520</u>	<u>(1)</u>	<u>11,437</u>	<u>54</u>	<u>4,715</u>	<u>107,196</u>
<u>\$ 17,218</u>	<u>\$ 773</u>	<u>\$ -</u>	<u>\$ 11,513</u>	<u>\$ 54</u>	<u>\$ 4,715</u>	<u>\$ 111,431</u>

CITY OF PALO ALTO
Non-major Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2025
(Amounts in thousands)

	Street Improvement	Federal and State Revenue	Housing In-Lieu	Special Districts
REVENUES:				
Other taxes and fines	\$ 3,767	\$ -	\$ -	\$ 168
Intergovernmental	-	1,192	-	-
Licenses, permits and fees:				
University Avenue Parking	-	-	-	1,949
California Avenue Parking	-	-	-	265
Other licenses, permits and fees	-	-	-	617
Investment earnings	(22)	22	935	115
Housing In-Lieu - residential	-	-	2,778	-
Other revenue	-	-	779	213
Total revenues	<u>3,745</u>	<u>1,214</u>	<u>4,492</u>	<u>3,327</u>
EXPENDITURES:				
Current:				
City Manager	-	32	-	-
Administrative Services	-	-	-	329
Public Works	-	-	-	2,238
Planning and Development Services	-	327	258	-
Office of Transportation	-	-	-	1,388
Police	-	-	-	-
Community Services	-	185	-	67
Non-Departmental	-	-	62	287
Debt service:				
Principal retirement	-	-	-	84
Interest and fiscal charges	-	-	-	98
Total expenditures	<u>-</u>	<u>544</u>	<u>320</u>	<u>4,491</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,745</u>	<u>670</u>	<u>4,172</u>	<u>(1,164)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	399
Transfers out	<u>(3,780)</u>	<u>(512)</u>	<u>-</u>	<u>(142)</u>
Total other financing sources (uses)	<u>(3,780)</u>	<u>(512)</u>	<u>-</u>	<u>257</u>
Change in fund balances	(35)	158	4,172	(907)
FUND BALANCES, BEGINNING OF YEAR	<u>25</u>	<u>7,452</u>	<u>61,750</u>	<u>638</u>
FUND BALANCES, END OF YEAR	<u>\$ (10)</u>	<u>\$ 7,610</u>	<u>\$ 65,922</u>	<u>\$ (269)</u>

Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,935
-	1,627	-	-	-	-	2,819
-	-	-	-	-	-	1,949
-	-	-	-	-	-	265
151	-	-	3,832	-	-	4,600
1,061	40	-	542	3	640	3,336
-	-	-	-	-	-	2,778
-	-	-	-	-	-	992
1,212	1,667	-	4,374	3	640	20,674
-	-	-	-	-	-	32
-	-	-	-	-	-	329
-	-	-	-	-	-	2,238
-	-	-	-	-	-	585
-	-	-	-	-	-	1,388
-	1,816	-	-	-	-	1,816
-	-	-	455	-	-	707
-	-	4	-	-	-	353
-	-	-	-	-	-	84
-	-	-	-	-	-	98
-	1,816	4	455	-	-	7,630
1,212	(149)	(4)	3,919	3	640	13,044
-	-	-	188	-	-	587
(2,787)	(52)	-	(2,836)	-	(4,075)	(14,184)
(2,787)	(52)	-	(2,648)	-	(4,075)	(13,597)
(1,575)	(201)	(4)	1,271	3	(3,435)	(553)
18,793	721	3	10,166	51	8,150	107,749
\$ 17,218	\$ 520	\$ (1)	\$ 11,437	\$ 54	\$ 4,715	107,196

CITY OF PALO ALTO
Non-major Special Revenue Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2025
(Amounts in thousands)

	Street Improvement			Federal and State Revenue		
	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
REVENUES:						
Other taxes and fines	\$ 3,779	\$ 3,767	\$ (12)	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	1,229	1,192	(37)
Licenses, permits and fees						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other licenses, permits and fees	-	-	-	-	-	-
Investment earnings	2	(8)	(10)	-	18	18
Rental income	-	-	-	-	-	-
Housing In-Lieu - residential	-	-	-	-	-	-
Other:						
Loan payoffs	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
Total revenues	<u>3,781</u>	<u>3,759</u>	<u>(22)</u>	<u>1,229</u>	<u>1,210</u>	<u>(19)</u>
EXPENDITURES:						
Current:						
City Manager	-	-	-	72	32	40
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Development Services	-	-	-	1,929	1,287	642
Office of Transportation	-	-	-	-	-	-
Police	-	-	-	-	-	-
Community Services	-	-	-	249	185	64
Non-Departmental	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,250</u>	<u>1,504</u>	<u>746</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,781</u>	<u>3,759</u>	<u>(22)</u>	<u>(1,021)</u>	<u>(294)</u>	<u>727</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	<u>(3,780)</u>	<u>(3,780)</u>	<u>-</u>	<u>(512)</u>	<u>(512)</u>	<u>-</u>
Total other financing sources (uses)	<u>(3,780)</u>	<u>(3,780)</u>	<u>-</u>	<u>(512)</u>	<u>(512)</u>	<u>-</u>
Change in fund balances, budgetary basis	<u>\$ 1</u>	<u>(21)</u>	<u>\$ (22)</u>	<u>\$ (1,533)</u>	<u>(806)</u>	<u>\$ 727</u>
Adjustment to Budgetary Basis:						
Unrealized gain (loss) on investments		(14)			4	
Changes in interfund balances		-			-	
Current year encumbrances/reappropriations		-			960	
CHANGE IN FUND BALANCE, GAAP BASIS		<u>(35)</u>			<u>158</u>	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		<u>25</u>			<u>7,452</u>	
FUND BALANCES, END OF YEAR, GAAP BASIS		<u>\$ (10)</u>			<u>\$ 7,610</u>	

Housing In-Lieu			Special Districts			Transportation Mitigation		
Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
\$ -	\$ -	\$ -	\$ 103	\$ 168	\$ 65	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	1,895	1,949	54	-	-	-
-	-	-	242	265	23	-	-	-
-	-	-	577	617	40	276	151	(125)
335	561	226	58	55	(3)	322	386	64
9	-	(9)	-	-	-	-	-	-
2,150	2,778	628	-	-	-	-	-	-
25	-	(25)	-	-	-	-	-	-
170	779	609	51	213	162	-	-	-
2,689	4,118	1,429	2,926	3,267	341	598	537	(61)
-	-	-	-	-	-	-	-	-
-	-	-	395	329	66	-	-	-
-	-	-	3,417	3,077	340	-	-	-
415	258	157	-	22	(22)	-	-	-
-	-	-	1,876	1,388	488	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	77	67	10	-	-	-
53	62	(9)	267	327	(60)	-	-	-
468	320	148	6,032	5,210	822	-	-	-
2,221	3,798	1,577	(3,106)	(1,943)	1,163	598	537	(61)
-	-	-	2,399	2,399	-	-	-	-
-	-	-	(142)	(142)	-	(2,787)	(2,787)	-
-	-	-	2,257	2,257	-	(2,787)	(2,787)	-
\$ 2,221	3,798	\$ 1,577	\$ (849)	314	\$ 1,163	\$ (2,189)	(2,250)	\$ (61)
	374			60			675	
	-			(2,000)			-	
	-			719			-	
	4,172			(907)			(1,575)	
	61,750			638			18,793	
	\$ 65,922			\$ (269)			\$ 17,218	

CITY OF PALO ALTO
Non-major Special Revenue Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2023
(Amounts in Thousands)

	Local Law Enforcement			Asset Seizure		
	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
REVENUES:						
Other taxes and fines	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	5,520	1,627	(3,893)	-	-	-
Licenses, permits and fees						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other licenses, permits and fees	-	-	-	-	-	-
Investment earnings	18	18	-	-	-	-
Rental income	-	-	-	-	-	-
Housing In-Lieu - residential	-	-	-	-	-	-
Other:						
Loan payoffs	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
Total revenues	<u>5,538</u>	<u>1,645</u>	<u>(3,893)</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:						
Current:						
City Manager	-	-	-	-	-	-
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Development Services	-	-	-	-	-	-
Office of Transportation	-	-	-	-	-	-
Police	5,787	2,180	3,607	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	4	4	-
Total expenditures	<u>5,787</u>	<u>2,180</u>	<u>3,607</u>	<u>4</u>	<u>4</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(249)</u>	<u>(535)</u>	<u>(286)</u>	<u>(4)</u>	<u>(4)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	(52)	(52)	-	-	-	-
Total other financing sources (uses)	<u>(52)</u>	<u>(52)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balances, budgetary basis	<u>\$ (301)</u>	<u>(587)</u>	<u>\$ (286)</u>	<u>\$ (4)</u>	<u>(4)</u>	<u>\$ -</u>
Adjustment to Budgetary Basis:						
Unrealized gain (loss) on investments		22			-	
Changes in interfund balances		-			-	
Current year encumbrances/reappropriations		<u>364</u>			<u>-</u>	
CHANGE IN FUND BALANCE, GAAP BASIS		<u>(201)</u>			<u>(4)</u>	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		<u>721</u>			<u>3</u>	
FUND BALANCES, END OF YEAR, GAAP BASIS		<u>\$ 520</u>			<u>\$ (1)</u>	

Developer Impact Fee			Downtown Business Improvement District			Public Benefit		
Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
948	3,832	2,884	-	-	-	-	-	-
216	288	72	1	1	-	295	159	(136)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
1,164	4,120	2,956	1	1	-	295	159	(136)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
595	594	1	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
595	594	1	-	-	-	-	-	-
569	3,526	2,957	1	1	-	295	159	(136)
188	188	-	-	-	-	-	-	-
(2,836)	(2,836)	-	-	-	-	(4,075)	(4,075)	-
(2,648)	(2,648)	-	-	-	-	(4,075)	(4,075)	-
<u>\$ (2,079)</u>	878	<u>\$ 2,957</u>	<u>\$ 1</u>	1	<u>\$ -</u>	<u>\$ (3,780)</u>	(3,916)	<u>\$ (136)</u>
	254			2			481	
	-			-			-	
	139			-			-	
	1,271			3			(3,435)	
	10,166			51			8,150	
	<u>\$ 11,437</u>			<u>\$ 54</u>			<u>\$ 4,715</u>	

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NON-MAJOR GOVERNMENTAL FUNDS

DEBT SERVICE FUNDS

2018 Golf Course Capital Improvement

This fund accounts for revenues received from the General Fund to provide payment of principal and interest associated with the 2018 Golf Course Capital Improvement Certificates of Participation as they become due.

2019 California Avenue Parking Garage COPs

This fund accounts for revenues received from the General Fund to provide payment of principal and interest associated with the 2019 California Avenue Parking Garage Certificates of Participation as they become due.

Library Projects

This fund accounts for revenues received from property taxes to provide payment of principal and interest associated with the 2013A, 2022A and 2022B General Obligation Bonds as they become due.

Public Safety Building

This fund accounts for revenues received from the General Fund to provide payment of principal and interest associated with the 2021 Public Safety Building Certificates of Participation as they become due.

CITY OF PALO ALTO
Non-major Debt Service Funds
Combining Balance Sheet
June 30, 2025
(Amounts in thousands)

	2018 Golf Course Capital Improvement	2019 California Avenue Parking Garage COPS	Library Projects	Public Safety Building	Total Debt Service Funds
ASSETS:					
Cash and investments available for operations	\$ 21	\$ 36	\$ 3,521	\$ 55	\$ 3,633
Receivables:					
Interest	-	-	23	-	23
Restricted cash and investments with fiscal agents	-	2	5	2	9
Total assets	<u>\$ 21</u>	<u>\$ 38</u>	<u>\$ 3,549</u>	<u>\$ 57</u>	<u>\$ 3,665</u>
FUND BALANCES:					
Restricted:					
Debt service	<u>\$ 21</u>	<u>\$ 38</u>	<u>\$ 3,549</u>	<u>\$ 57</u>	<u>\$ 3,665</u>

CITY OF PALO ALTO
Non-major Debt Service Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2025
(Amounts in thousands)

	2018 Golf Course Capital Improvement	2019 California Avenue Parking Garage COPs	Library Projects	Public Safety Building	Total Debt Service Funds
REVENUES:					
Property tax	\$ -	\$ -	\$ 4,325	\$ -	\$ 4,325
Investment earnings	-	5	105	10	120
Total revenues	-	5	4,430	10	4,445
EXPENDITURES:					
Debt service:					
Principal retirement	205	720	1,905	2,245	5,075
Interest and fiscal charges	320	1,645	2,152	2,766	6,883
Total expenditures	525	2,365	4,057	5,011	11,958
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(525)	(2,360)	373	(5,001)	(7,513)
OTHER FINANCING SOURCES (USES):					
Transfers in	526	2,365	-	5,009	7,900
Change in fund balances	1	5	373	8	387
FUND BALANCES, BEGINNING OF YEAR	20	33	3,176	49	3,278
FUND BALANCES, END OF YEAR	\$ 21	\$ 38	\$ 3,549	\$ 57	\$ 3,665

CITY OF PALO ALTO
Non-major Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2025
(Amounts in thousands)

	2018 Golf Course Capital Improvement			2019 California Avenue Parking Garage COPs			Library Projects			Public Safety Building		
	Actual, Budgetary			Actual, Budgetary			Actual, Budgetary			Actual, Budgetary		
	Budget	Basis	Variance	Budget	Basis	Variance	Budget	Basis	Variance	Budget	Basis	Variance
REVENUES:												
Property tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,221	\$ 4,325	\$ 104	\$ -	\$ -	\$ -
Investment earnings	-	-	-	-	5	5	24	17	(7)	-	10	10
Total revenues	-	-	-	-	5	5	4,245	4,342	97	-	10	10
EXPENDITURES:												
Debt service:												
Principal retirement	205	205	-	720	720	-	1,905	1,905	-	2,245	2,245	-
Interest and fiscal charges	320	320	-	1,645	1,645	-	2,200	2,152	48	2,764	2,766	(2)
Total expenditures	525	525	-	2,365	2,365	-	4,105	4,057	48	5,009	5,011	(2)
Excess (deficiency) of revenues over (under) expenditures	(525)	(525)	-	(2,365)	(2,360)	5	140	285	145	(5,009)	(5,001)	8
OTHER FINANCING SOURCES (USES):												
Transfers in	526	526	-	2,365	2,365	-	-	-	-	5,009	5,009	-
Change in fund balances, budgetary basis	<u>\$ 1</u>	<u>1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>5</u>	<u>\$ 5</u>	<u>\$ 140</u>	<u>285</u>	<u>\$ 145</u>	<u>\$ -</u>	<u>8</u>	<u>\$ 8</u>
Adjustment to Budgetary Basis:												
Unrealized gain (loss) on investments		-			-			88			-	
CHANGE IN FUND BALANCE, GAAP BASIS		1			5			373			8	
FUND BALANCES, BEGINNING OF YEAR		20			33			3,176			49	
FUND BALANCES, END OF YEAR		<u>\$ 21</u>			<u>\$ 38</u>			<u>\$ 3,549</u>			<u>\$ 57</u>	

NON-MAJOR GOVERNMENTAL FUNDS

PERMANENT FUND

Eyerly Family

This fund accounts for the revenues received from assets donated by Mr. and Mrs. Fred Eyerly for the City and or its citizenry.

CITY OF PALO ALTO
Non-major Permanent Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual
For the Year Ended June 30, 2025
(Amounts in thousands)

	Eyerly Family Permanent Fund		
	Budget	Actual, Budgetary Basis	Variance Positive (Negative)
REVENUES:			
Investment earnings	\$ 68	\$ 67	\$ (1)
EXPENDITURES:			
Current:			
Non-Departmental	12	12	-
Change in fund balance	\$ 56	55	\$ (1)
Adjustment to Budgetary Basis:			
Unrealized gain (loss) on investments		80	
CHANGE IN FUND BALANCE, GAAP BASIS		135	
FUND BALANCE, BEGINNING OF YEAR		2,500	
FUND BALANCE, END OF YEAR		\$ 2,635	

INTERNAL SERVICE FUNDS

INTRODUCTION

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the City on a cost reimbursement basis.

Vehicle Replacement and Maintenance

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

Technology

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

Printing and Mailing Services

This fund accounts for central duplicating, printing and mailing services provided to all City departments. Source of revenue for this fund is from reimbursement of costs for services and supplies purchased by other departments.

General Benefits

This fund accounts for the administration of compensated absences, pension, health benefits, and other benefits.

Workers' Compensation Insurance Program

This fund accounts for the administration of the City's self-insured workers' compensation programs.

General Liabilities Insurance Program

This fund accounts for the administration of the City's self-insured general liability programs.

Retiree Health Benefits

This fund accounts for the retiree health benefits contributions.

CITY OF PALO ALTO
Internal Service Funds
Combining Statement of Fund Net Position
June 30, 2025
(Amounts in thousands)

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
ASSETS:								
Current Assets:								
Cash and investments available for operations	\$ 23,085	\$ 17,758	\$ 297	\$ 28,020	\$ 32,940	\$ 10,006	\$ 624	\$ 112,730
Accounts receivable	129	-	-	145	213	-	755	1,242
Interest receivable	145	124	2	200	227	90	7	795
Inventory of materials and supplies	86	-	-	-	-	-	-	86
Restricted cash and investments with fiscal agents and trustees	-	-	-	109,904	-	-	-	109,904
Total current assets	23,445	17,882	299	138,269	33,380	10,096	1,386	224,757
Noncurrent Assets:								
Capital assets:								
Nondepreciable	3,282	6,559	-	-	-	-	-	9,841
Depreciable, net	10,469	2,909	6	-	-	-	-	13,384
Total noncurrent assets	13,751	9,468	6	-	-	-	-	23,225
Total assets	37,196	27,350	305	138,269	33,380	10,096	1,386	247,982
DEFERRED OUTFLOWS OF RESOURCES:								
Pension related	727	2,682	41	-	55	-	-	3,505
OPEB related	338	844	35	-	17	-	-	1,234
Total deferred outflows of resources	1,065	3,526	76	-	72	-	-	4,739
LIABILITIES:								
Current Liabilities:								
Accounts payable and accruals	630	258	60	715	-	-	-	1,663
Accrued salaries and benefits	52	232	5	-	93	6	-	388
Accrued compensated absences	-	-	-	17,646	-	-	-	17,646
Current portion of SBITA liabilities	24	1,213	-	-	-	-	-	1,237
Accrued claims payable - current	-	-	-	160	4,712	2,776	-	7,648
Total current liabilities	706	1,703	65	18,521	4,805	2,782	-	28,582
Noncurrent liabilities:								
Accrued compensated absences	-	-	-	11,175	-	-	-	11,175
Net pension liabilities	3,648	13,689	198	-	-	-	-	17,535
Net OPEB liabilities	1,324	2,745	144	-	-	-	-	4,213
SBITA liabilities	88	686	-	-	-	-	-	774
Accrued claims payable	-	-	-	-	21,329	5,636	-	26,965
Total noncurrent liabilities	5,060	17,120	342	11,175	21,329	5,636	-	60,662
Total liabilities	5,766	18,823	407	29,696	26,134	8,418	-	89,244
DEFERRED INFLOWS OF RESOURCES:								
OPEB related	64	149	6	-	3	-	-	222
NET POSITION:								
Net Investment in capital assets	13,639	7,569	6	-	-	-	-	21,214
Restricted for supplemental pension	-	-	-	109,904	-	-	-	109,904
Unrestricted	18,792	4,335	(38)	(1,331)	7,315	1,678	1,386	32,137
Total net position	\$ 32,431	\$ 11,904	\$ (32)	\$ 108,573	\$ 7,315	\$ 1,678	\$ 1,386	\$ 163,255

CITY OF PALO ALTO
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2025
(Amounts in thousands)

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
OPERATING REVENUES:								
Charges for services	\$ 11,349	\$ 18,808	\$ 1,504	\$ 100,925	\$ 5,159	\$ 9,041	\$ 16,690	\$ 163,476
Other	-	-	-	-	17	2,500	-	2,517
Total operating revenues	11,349	18,808	1,504	100,925	5,176	11,541	16,690	165,993
OPERATING EXPENSES:								
Administrative and general	2,112	8,452	819	304	1,125	5,188	35	18,035
Operations and maintenance	4,329	11,173	634	-	214	-	-	16,350
Depreciation and amortization	2,506	1,974	3	-	-	-	-	4,483
Claim payments and change in estimated self-insured liability	-	-	-	1,513	5,889	6,312	-	13,714
Refund of charges for services	108	20	-	-	-	-	-	128
Employment benefits	-	-	-	82,420	-	-	19,435	101,855
Total operating expenses	9,055	21,619	1,456	84,237	7,228	11,500	19,470	154,565
Operating income (loss)	2,294	(2,811)	48	16,688	(2,052)	41	(2,780)	11,428
NONOPERATING REVENUES (EXPENSES):								
Investment earnings	980	1,126	7	12,408	1,860	608	130	17,119
Interest expense	(4)	(111)	-	-	-	-	-	(115)
Gain on disposal of capital assets	90	-	-	-	-	-	-	90
Other nonoperating revenues	80	-	-	-	-	-	-	80
Total nonoperating revenues (expenses)	1,146	1,015	7	12,408	1,860	608	130	17,174
Income (loss) before transfers	3,440	(1,796)	55	29,096	(192)	649	(2,650)	28,602
Transfers in	372	1,470	3	16	-	5	2,745	4,611
Transfers out	(175)	(28)	-	(6,484)	-	-	-	(6,687)
Change in net position	3,637	(354)	58	22,628	(192)	654	95	26,526
NET POSITION, BEGINNING OF YEAR AS PREVIOUSLY REPORTED	28,794	12,258	(90)	95,465	7,507	1,024	1,291	146,249
RESTATEMENT FOR IMPLEMENTATION OF GASB STATEMENT NO. 101	-	-	-	(9,520)	-	-	-	(9,520)
NET POSITION, BEGINNING OF YEAR, AS RESTATED	28,794	12,258	(90)	85,945	7,507	1,024	1,291	136,729
NET POSITION, END OF YEAR	\$ 32,431	\$ 11,904	\$ (32)	\$ 108,573	\$ 7,315	\$ 1,678	\$ 1,386	\$ 163,255

CITY OF PALO ALTO
Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2025
(Amounts in thousands)

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
Cash flows from operating activities:								
Cash received from customers	\$ 11,255	\$ 18,808	\$ 1,504	\$ 101,043	\$ 4,985	\$ 15,541	\$ 15,935	\$ 169,071
Cash payments to suppliers for goods and services	(3,857)	(10,559)	(1,315)	(304)	(947)	(5,188)	(35)	(22,205)
Cash payments to employees	(2,358)	(9,459)	(207)	(82,079)	(529)	6	(19,435)	(114,061)
Cash payments for judgments and claims	-	-	-	(1,513)	(4,733)	(16,894)	-	(23,140)
Other cash receipts	80	-	-	-	-	-	-	80
Net cash provided by (used in) operating activities	5,120	(1,210)	(18)	17,147	(1,224)	(6,535)	(3,535)	9,745
Cash flows from noncapital financing activities:								
Transfers in	372	1,470	3	16	-	5	2,745	4,611
Transfers out	(175)	(28)	-	(6,484)	-	-	-	(6,687)
Net cash provided by (used in) noncapital financing activities	197	1,442	3	(6,468)	-	5	2,745	(2,076)
Cash flows from capital and related financing activities:								
Acquisition of capital assets	(1,840)	-	-	-	-	-	-	(1,840)
Proceeds from sale of capital assets	90	-	-	-	-	-	-	90
Principal paid on SBITA liabilities	(20)	(1,814)	-	-	-	-	-	(1,834)
Interest paid	(4)	(111)	-	-	-	-	-	(115)
Net cash used in capital and related financing activities	(1,774)	(1,925)	-	-	-	-	-	(3,699)
Cash flows from investing activities:								
Investment interest received	857	1,319	7	12,378	1,826	599	131	17,117
Net change in cash and cash equivalents	4,400	(374)	(8)	23,057	602	(5,931)	(659)	21,087
Cash and cash equivalents, beginning of year	18,685	18,132	305	114,867	32,338	15,937	1,283	201,547
Cash and cash equivalents, end of year	\$ 23,085	\$ 17,758	\$ 297	\$ 137,924	\$ 32,940	\$ 10,006	\$ 624	\$ 222,634
Financial statement presentation:								
Cash and investments available for operations	\$ 23,085	\$ 17,758	\$ 297	\$ 28,020	\$ 32,940	\$ 10,006	\$ 624	\$ 112,730
Restricted cash and investments with fiscal agents and trustees	-	-	-	109,904	-	-	-	109,904
Cash and cash equivalents, end of year	\$ 23,085	\$ 17,758	\$ 297	\$ 137,924	\$ 32,940	\$ 10,006	\$ 624	\$ 222,634
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:								
Operating income (loss)	\$ 2,294	\$ (2,811)	\$ 48	\$ 16,688	\$ (2,052)	\$ 41	\$ (2,780)	\$ 11,428
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation and amortization	2,506	1,974	3	-	-	-	-	4,483
Other	80	-	-	-	-	-	-	80
Change in assets, deferred outflow/inflow of resources, and liabilities:								
Accounts receivable	(94)	-	-	118	(174)	4,000	(755)	3,095
Inventory of materials and supplies	33	-	-	-	-	-	-	33
Deferred outflows of resources - pension plans	102	778	(20)	-	(1)	-	-	859
Deferred outflows of resources - OPEB	103	250	7	-	5	-	-	365
Accounts payable and accruals	453	(194)	(22)	(1,196)	(170)	(12,106)	-	(13,235)
Accrued salaries and benefits	-	38	-	-	33	6	-	77
Accrued compensated absences	-	-	-	1,537	-	-	-	1,537
Accrued claims payable	-	-	-	-	1,139	1,524	-	2,663
Net pension liability	(152)	(730)	(21)	-	-	-	-	(903)
Net OPEB liability	(98)	(249)	(11)	-	-	-	-	(358)
Deferred inflows of resources - pension plans	(18)	(74)	-	-	-	-	-	(92)
Deferred inflows of resources - OPEB	(89)	(192)	(2)	-	(4)	-	-	(287)
Net cash provided by (used in) operating activities	\$ 5,120	\$ (1,210)	\$ (18)	\$ 17,147	\$ (1,224)	\$ (6,535)	\$ (3,535)	\$ 9,745
Noncash capital and related financing activities:								
SBITA assets and liabilities addition	\$ 132	\$ 1,852	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,984

FIDUCIARY FUNDS

INTRODUCTION

Fiduciary Funds are used to account for assets held by the City acting in a fiduciary capacity for other entities and individuals. The funds are operated to carry out the specific actions required by the trust agreements, ordinances and other governing regulations.

Fiduciary Funds are presented separately from the Citywide and Fund financial statements.

Custodial Funds are fiduciary funds used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private purpose trust funds. The City maintains two agency custodial funds as follows:

Cable Joint Powers Authority

The fund was established to account for the activities of the cable television system on behalf of the members.

University Avenue Area Off-Street Parking Assessment District

The fund accounts for the receipts and disbursements associated with the Series 2012 Limited Obligation Refunding Improvement Bonds.

CITY OF PALO ALTO
Custodial Funds
Combining Statement of Fiduciary Net Position
June 30, 2025
(Amounts in thousands)

	Cable Joint Powers Authority	University Avenue Area Off-Street Parking Assessment District	Total
ASSETS:			
Cash and investments available for operations (Note 3)	\$ 1,990	\$ 1,850	\$ 3,840
Accounts receivable	331	60	391
Interest receivable	13	13	26
Restricted cash and investments with fiscal agents (Note 3)	-	3,127	3,127
Total assets	<u>2,334</u>	<u>5,050</u>	<u>7,384</u>
LIABILITIES:			
Accounts payable and accruals	<u>228</u>	<u>-</u>	<u>228</u>
NET POSITION:			
Restricted for:			
Governmental entities	2,106	-	2,106
Bondholders of special assessment bonds	<u>-</u>	<u>5,050</u>	<u>5,050</u>
Total net position	<u><u>\$ 2,106</u></u>	<u><u>\$ 5,050</u></u>	<u><u>\$ 7,156</u></u>

CITY OF PALO ALTO
Custodial Funds
Combining Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2025
(Amounts in thousands)

	Cable Joint Powers Authority	University Avenue Area Off-Street Parking Assessment District	Total
ADDITIONS:			
Franchise and other fees collected	\$ 1,371	\$ -	\$ 1,371
Special assessments collected	-	2,244	2,244
Investment earnings	97	210	307
Total additions	<u>1,468</u>	<u>2,454</u>	<u>3,922</u>
DEDUCTIONS:			
Administrative and general	7	5	12
Distribution to governmental entities	1,223	-	1,223
Debt service payments	-	2,227	2,227
Total deductions	<u>1,230</u>	<u>2,232</u>	<u>3,462</u>
Changes in net position	238	222	460
NET POSITION, BEGINNING OF YEAR	<u>1,868</u>	<u>4,828</u>	<u>6,696</u>
NET POSITION, END OF YEAR	<u><u>\$ 2,106</u></u>	<u><u>\$ 5,050</u></u>	<u><u>\$ 7,156</u></u>

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STATISTICAL SECTION

The statistical section contains comprehensive statistical data, which relates to physical, economic, social and political characteristics of the City. It is intended to provide users with a broader and more complete understanding of the City and its financial affairs than is possible from the financial statements and supporting schedules included in the financial section.

In this section, readers will find comparative information related to the City's revenue sources, expenditures, property tax valuations, levies and collections, general obligation bonded debt, utility revenue debt service, and demographics. Where available, the comparative information is presented for the last ten fiscal years.

In addition, this section presents information related to the City's legal debt margin computation, principal taxpayers, notary and security bond coverages, and other miscellaneous statistics pertaining to services provided by the City.

In contrast to the financial section, the statistical section information is not usually subject to independent audit.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time:

- Net Position by Component
- Changes in Net Position
- Fund Balances of Governmental Funds
- Changes in Fund Balances of Governmental Funds

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue sources, property tax and electric charges:

- Electric Operating Revenue by Source
- Power Supply Resources
- Supplemental Disclosure for Water Utilities
- Supplemental Disclosure for Gas Utilities
- Assessed Value of Taxable Property
- Property Tax Rates, All Overlapping Governments
- Property Tax Levies and Collections
- Principal Property Taxpayers
- Assessed Valuation and Parcels by Land Use
- Per Parcel Assessed Valuation of Single Family Residential

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

- Ratio of Outstanding Debt by Type
- Computation of Direct and Overlapping Debt
- Computation of Legal Bonded Debt Margin
- Revenue Bond Coverage

STATISTICAL SECTION

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

- Taxable Transactions by Type of Business
- Demographic and Economic Statistics
- Principal Employers

Operating Information

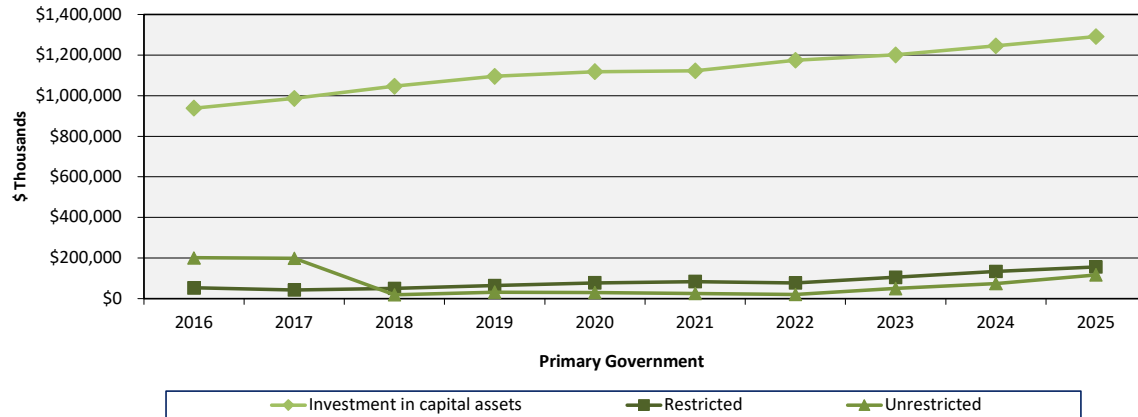
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

- Operating Indicators by Function/Program
- Capital Asset Statistics by Function/Program
- Full-Time Equivalent City Government Employees by Function

Sources

Unless otherwise noted, the information in these schedules is derived from the Annual Comprehensive Financial Reports for the relevant year.

CITY OF PALO ALTO
Net Position by Component
Last Ten Fiscal Years
(Accrual basis of accounting)
(Amounts in thousands)



	Fiscal Year Ended June 30									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Governmental Activities										
Investment in capital assets	\$ 425,179	\$ 453,878	\$ 473,233	\$ 493,706	\$ 497,378	\$ 480,620	\$ 503,869	\$ 493,029	\$ 489,693	\$ 496,767
Restricted	47,907	38,138	46,724	59,669	73,274	80,265	72,901	101,126	130,787	151,467
Unrestricted	37,905	35,273	(92,587)	(103,392)	(130,078)	(137,748)	(102,664)	(77,666)	(68,867)	(70,794)
Total Governmental Activities Net Position	\$ 510,991	\$ 527,289	\$ 427,370	\$ 449,983	\$ 440,574	\$ 423,137	\$ 474,106	\$ 516,489	\$ 551,613	\$ 577,440
Business-type Activities										
Investment in capital assets	\$ 512,918	\$ 532,063	\$ 573,688	\$ 602,136	\$ 621,354	\$ 642,018	\$ 670,830	\$ 707,940	\$ 755,840	\$ 795,304
Restricted	4,115	4,073	4,014	4,016	4,060	3,340	3,340	3,193	2,991	4,079
Unrestricted	162,806	163,158	110,429	135,391	159,592	161,861	122,646	126,613	141,845	187,724
Total Business-type Activities Net Position	\$ 679,839	\$ 699,294	\$ 688,131	\$ 741,543	\$ 785,006	\$ 807,219	\$ 796,816	\$ 837,746	\$ 900,676	\$ 987,107
Primary Government										
Investment in capital assets	\$ 938,097	\$ 985,941	\$ 1,046,921	\$ 1,095,842	\$ 1,118,732	\$ 1,122,638	\$ 1,174,699	\$ 1,200,969	\$ 1,245,533	\$ 1,292,071
Restricted	52,022	42,211	50,738	63,685	77,334	83,605	76,241	104,319	133,778	155,546
Unrestricted	200,711	198,431	17,842	31,999	29,514	24,113	19,982	48,947	72,978	116,930
Total Primary Government Net Position	\$ 1,190,830	\$ 1,226,583	\$ 1,115,501	\$ 1,191,526	\$ 1,225,580	\$ 1,230,356	\$ 1,270,922	\$ 1,354,235	\$ 1,452,289	\$ 1,564,547

Notes: The City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, effective July 1, 2017. The City's unrestricted net position decreased in FY 2018 as a result.

Source: Annual Financial Statements, Statement of Net Position

CITY OF PALO ALTO
Changes in Net Position
Last Ten Fiscal Years
(Accrual basis of accounting)
(Amounts in thousands)

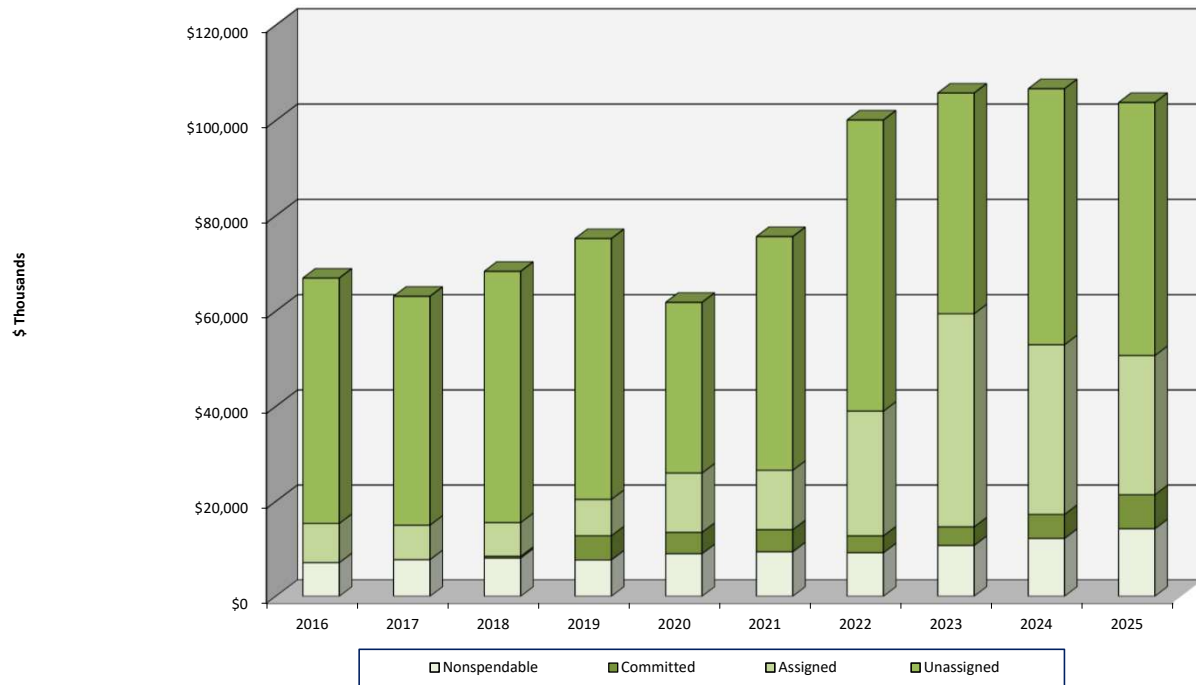
	Fiscal Year Ended June 30									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
PROGRAM REVENUES										
<u>Governmental Activities</u>										
Charges for services										
Administrative Services	\$ 9,444	\$ 5,242	\$ 6,536	\$ 6,413	\$ 5,758	\$ 1,150	\$ 4,173	\$ 14,332	\$ 4,176	\$ 5,017
Public Works	599	878	781	1,478	990	937	1,401	1,200	1,400	2,034
Planning & Community Environment ¹	9,071	6,067	5,119	11,997	-	-	-	-	-	-
Development Services ¹	12,570	11,768	16,000	13,904	-	-	-	-	-	-
Planning & Development Services ¹	-	-	-	-	16,173	21,228	17,499	16,914	20,601	18,765
Office of Transportation ²	-	-	-	-	1,161	80	560	657	2,519	1,971
Public Safety	13,945	12,670	13,507	14,179	12,101	11,135	12,298	14,534	16,339	21,474
Community Services	21,551	20,472	21,285	22,805	20,808	20,893	23,767	25,144	27,771	28,242
Library	198	139	145	134	94	47	40	43	30	42
Operating grants and contributions	2,164	1,990	14,054	2,100	2,619	3,033	9,901	7,981	7,051	5,435
Capital grants and contributions	344	1,929	1,534	8,247	9,021	11,326	30,373	7,204	6,254	6,484
Total Governmental Activities										
Program Revenues	69,886	61,155	78,961	81,257	68,725	69,829	100,012	88,009	86,141	89,464
<u>Business-type Activities</u>										
Charges for services										
Water	37,588	42,678	45,087	45,571	48,740	48,812	44,892	43,722	50,139	56,508
Electric	120,743	137,543	154,142	163,514	169,389	162,240	163,704	200,474	225,687	238,813
Fiber Optics	4,505	4,553	4,529	4,657	4,576	3,936	2,520	2,679	3,861	3,816
Gas	30,212	36,431	37,044	42,113	37,402	39,520	49,970	75,345	54,081	59,488
Wastewater Collection	16,496	17,748	17,990	20,219	20,933	20,484	20,435	21,300	23,313	30,239
Wastewater Treatment	23,825	23,649	27,382	27,573	29,310	30,522	29,984	31,283	38,368	46,394
Refuse	32,169	33,918	34,647	33,996	32,695	30,636	31,650	32,022	32,788	32,475
Storm Drainage	6,520	6,693	6,964	7,249	7,543	7,785	7,896	8,257	8,625	8,921
Airport	826	1,286	2,382	2,483	2,362	2,585	2,657	2,614	3,150	3,372
Operating grants and contributions	744	512	501	488	473	462	676	24,417	440	517
Capital grants and contributions	1,061	4,265	14,194	6,677	6,449	6,391	7,303	2,659	3,450	1,316
Total Business-type Activities										
Program Revenues	274,689	309,276	344,862	354,540	359,872	353,373	361,687	444,772	443,902	481,859
Total Primary Government										
Program Revenues	\$ 344,575	\$ 370,431	\$ 423,823	\$ 435,797	\$ 428,597	\$ 423,202	\$ 461,699	\$ 532,781	\$ 530,043	\$ 571,323
EXPENSES										
<u>Governmental Activities</u>										
City Council	\$ 352	\$ 329	\$ 345	\$ 270	\$ 172	\$ 178	\$ (113)	\$ 124	\$ 257	\$ 267
City Manager	2,662	1,975	2,757	3,336	3,616	2,466	1,600	2,525	3,210	3,633
City Attorney	2,472	2,140	2,511	3,086	2,845	2,292	1,984	2,634	2,788	2,911
City Clerk	582	762	931	822	748	702	407	692	656	811
City Auditor	414	847	994	1,081	645	641	487	268	445	787
Administrative Services	10,637	11,887	13,949	19,169	15,919	22,985	15,019	9,487	13,019	12,533
Human Resources	2,224	2,272	2,674	3,021	3,060	2,518	1,637	2,121	2,982	3,583
Public Works	24,613	25,539	30,349	36,617	45,609	52,727	31,177	37,406	49,129	51,930
Planning & Community Environment ¹	10,208	10,918	11,357	12,169	-	-	-	-	-	-
Development Services ¹	11,158	11,102	12,664	12,622	-	-	-	-	-	-
Planning & Development Services ¹	-	-	-	-	21,725	18,141	15,680	24,497	26,589	23,123
Office of Transportation ²	-	-	-	-	4,693	3,636	4,398	6,357	6,318	8,966
Public Safety (Police and Fire)	56,653	73,320	83,923	89,189	92,187	80,758	66,237	85,187	97,290	113,445
Community Services	28,547	27,866	33,709	36,815	34,147	30,289	31,928	36,985	44,073	45,074
Library	10,825	11,437	12,208	12,557	12,971	11,145	9,527	11,046	13,347	14,721
Interest on long term debt	3,552	2,846	2,761	3,653	4,576	6,317	9,167	6,730	6,403	6,342
Total Governmental										
Activities Expenses	164,899	183,240	211,132	234,407	242,913	234,795	189,135	226,059	266,506	288,126
<u>Business-type Activities</u>										
Water	35,120	37,535	40,836	40,606	43,034	43,556	41,893	43,838	50,247	51,698
Electric	120,319	128,603	146,033	139,605	142,426	156,105	169,098	182,194	170,769	179,564
Fiber Optics	2,107	2,159	2,653	2,476	2,761	2,529	2,242	2,617	2,927	3,648
Gas	20,879	26,783	27,930	30,915	27,212	28,556	40,744	63,383	42,854	41,410
Wastewater Collection	15,199	16,405	16,801	17,324	18,877	19,577	18,256	20,473	24,664	26,321
Wastewater Treatment	22,546	23,498	27,518	27,070	28,755	28,403	27,106	31,747	34,614	36,115
Refuse	30,370	30,665	28,808	30,391	36,947	29,138	29,955	32,551	35,589	35,242
Storm Drainage	3,735	4,106	5,059	4,951	5,514	4,897	4,631	6,093	6,918	7,061
Airport	970	1,274	1,656	1,790	2,131	1,499	1,924	2,415	2,864	4,254
Total Business-type										
Activities Expenses	251,245	271,028	297,294	295,128	307,657	314,260	335,849	385,311	371,446	385,313
Total Primary										
Government Expenses	\$ 416,144	\$ 454,268	\$ 508,426	\$ 529,535	\$ 550,570	\$ 549,055	\$ 524,984	\$ 611,370	\$ 637,952	\$ 673,439

	Fiscal Year Ended June 30									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
NET (EXPENSE)/REVENUE										
Governmental Activities	\$ (95,013)	\$ (122,085)	\$ (132,171)	\$ (153,150)	\$ (174,188)	\$ (164,966)	\$ (89,123)	\$ (138,050)	\$ (180,365)	\$ (198,662)
Business-type Activities	23,444	38,248	47,568	59,412	52,215	39,113	25,838	59,461	72,456	96,546
Total Primary Government										
Net (Expense)/Revenue	<u>\$ (71,569)</u>	<u>\$ (83,837)</u>	<u>\$ (84,603)</u>	<u>\$ (93,738)</u>	<u>\$ (121,973)</u>	<u>\$ (125,853)</u>	<u>\$ (63,285)</u>	<u>\$ (78,589)</u>	<u>\$ (107,909)</u>	<u>\$ (102,116)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET POSITION										
Governmental Activities										
Taxes										
Property tax	\$ 41,189	\$ 43,953	\$ 47,170	\$ 51,718	\$ 55,604	\$ 60,901	\$ 63,632	\$ 67,282	\$ 70,650	\$ 73,727
Sales tax	30,018	29,923	31,091	36,508	30,563	29,127	32,705	36,926	37,482	35,219
Utility user tax	12,469	14,240	15,414	16,402	16,140	14,642	15,599	18,763	19,013	20,394
Transient occupancy tax	22,366	23,477	24,937	25,649	18,553	5,179	16,946	25,485	27,781	28,970
Other taxes	7,868	8,989	11,337	9,525	9,775	13,471	15,028	9,070	16,013	17,957
Investment earnings	8,639	(711)	420	15,375	13,850	4,939	(24,497)	2,243	22,651	32,036
Miscellaneous	894	168	1,973	1,906	60	183	418	372	304	1,055
Transfers	18,705	18,344	19,077	18,680	20,234	19,087	20,261	20,292	21,595	24,651
Total Governmental Activities	<u>142,148</u>	<u>138,383</u>	<u>151,419</u>	<u>175,763</u>	<u>164,779</u>	<u>147,529</u>	<u>140,092</u>	<u>180,433</u>	<u>215,489</u>	<u>234,009</u>
Business-type Activities										
Investment earnings	7,282	(449)	596	12,680	11,482	2,187	(16,098)	1,761	11,759	14,536
Gain from sale of capital assets	-	-	-	-	-	-	118	-	310	-
Transfers	(18,705)	(18,344)	(19,077)	(18,680)	(20,234)	(19,087)	(20,261)	(20,292)	(21,595)	(24,651)
Total Business-type Activities	<u>(11,423)</u>	<u>(18,793)</u>	<u>(18,481)</u>	<u>(6,000)</u>	<u>(8,752)</u>	<u>(16,900)</u>	<u>(36,241)</u>	<u>(18,531)</u>	<u>(9,526)</u>	<u>(10,115)</u>
Total Primary Government	<u>\$ 130,725</u>	<u>\$ 119,590</u>	<u>\$ 132,938</u>	<u>\$ 169,763</u>	<u>\$ 156,027</u>	<u>\$ 130,629</u>	<u>\$ 103,851</u>	<u>\$ 161,902</u>	<u>\$ 205,963</u>	<u>\$ 223,894</u>
CHANGE IN NET POSITION										
Governmental Activities	\$ 47,135	\$ 16,298	\$ 19,248	\$ 22,613	\$ (9,409)	\$ (17,437)	\$ 50,969	\$ 42,383	\$ 35,124	\$ 35,347
Business-type Activities	12,021	19,455	29,087	53,412	43,463	22,213	(10,403)	40,930	62,930	86,431
Total Primary Government										
Change in Net Position	<u>\$ 59,156</u>	<u>\$ 35,753</u>	<u>\$ 48,335</u>	<u>\$ 76,025</u>	<u>\$ 34,054</u>	<u>\$ 4,776</u>	<u>\$ 40,566</u>	<u>\$ 83,313</u>	<u>\$ 98,054</u>	<u>\$ 121,778</u>

Notes: ¹In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.
²In FY20, the City established the Office of Transportation.

Source: Annual Financial Statements, Statement of Activities

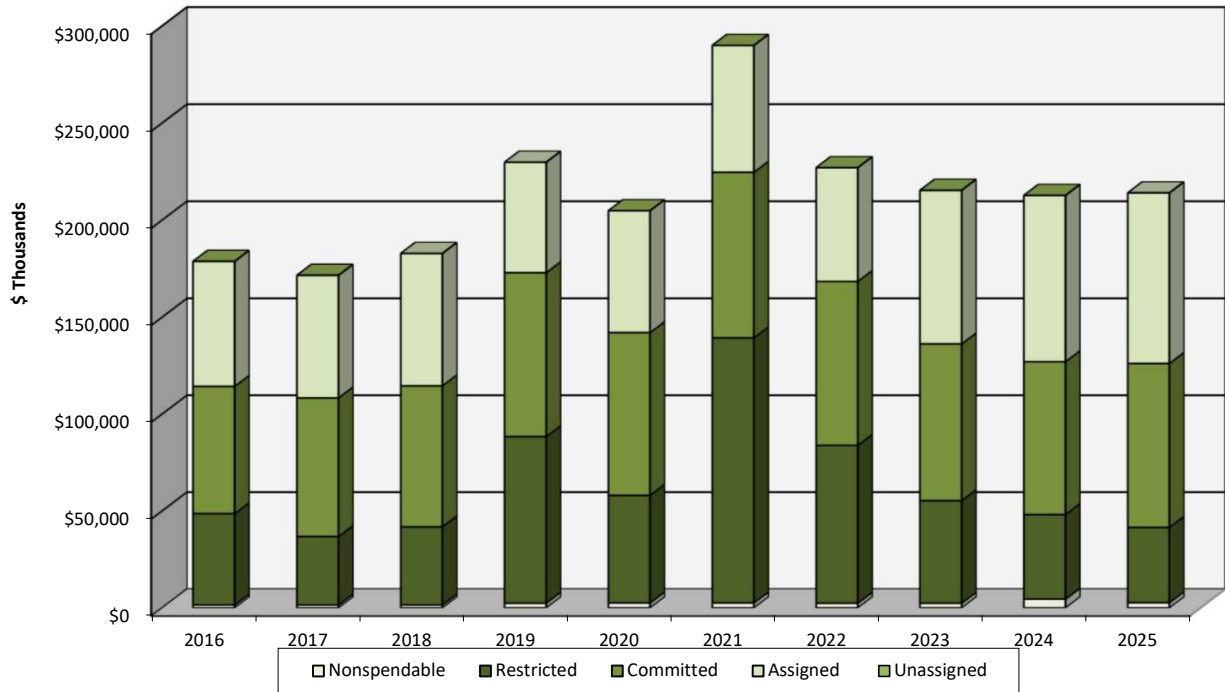
CITY OF PALO ALTO
Fund Balances of Governmental Funds (General Fund)
Last Ten Fiscal Years
(Modified accrual basis of accounting)
(Amounts in thousands)



	Fiscal Year Ended June 30									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
General Fund										
Nonspendable	\$ 7,088	\$ 7,709	\$ 8,049	\$ 7,647	\$ 8,967	\$ 9,376	\$ 9,175	\$ 10,703	\$ 12,182	\$ 14,224
Committed	-	-	373	5,100	4,505	4,651	3,563	3,920	5,066	7,176
Assigned	8,261	7,280	7,098	7,657	12,496	12,520	26,282	44,823	35,702	29,276
Unassigned	51,582	48,118	52,826	54,811	35,871	49,089	61,080	46,312	53,712	53,105
Total General Fund	\$ 66,931	\$ 63,107	\$ 68,346	\$ 75,215	\$ 61,839	\$ 75,636	\$ 100,100	\$ 105,758	\$ 106,662	\$ 103,781

Source: Annual Financial Statements, Balance Sheet

CITY OF PALO ALTO
Fund Balances of Governmental Funds (All Other Governmental Funds)
Last Ten Fiscal Years
(Modified accrual basis of accounting)
(Amounts in thousands)



	Fiscal Year Ended June 30									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
All Other Governmental Funds										
Nonspendable	\$ 1,505	\$ 1,499	\$ 1,498	\$ 2,438	\$ 2,540	\$ 2,556	\$ 2,394	\$ 2,394	\$ 4,504	\$ 2,635
Restricted	47,113	35,298	40,317	85,940	55,548	136,795	81,500	52,956	43,622	38,928
Committed	65,745	71,566	72,781	84,616	83,973	85,324	84,578	80,891	78,931	84,602
Assigned	64,411	63,225	68,261	56,842	62,825	65,331	58,567	79,143	85,697	87,893
Unassigned	-	-	(32)	(32)	-	-	-	-	-	(280)
Total All Other Governmental Funds	<u>\$ 178,774</u>	<u>\$ 171,588</u>	<u>\$ 182,825</u>	<u>\$ 229,804</u>	<u>\$ 204,886</u>	<u>\$ 290,006</u>	<u>\$ 227,039</u>	<u>\$ 215,384</u>	<u>\$ 212,754</u>	<u>\$ 213,778</u>

Source: Annual Financial Statements, Balance Sheet

CITY OF PALO ALTO
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified accrual basis of accounting)
(Amounts in thousands)

	Fiscal Year Ended June 30									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenues										
Property tax	\$ 41,289	\$ 44,050	\$ 47,242	\$ 51,776	\$ 55,628	\$ 60,906	\$ 63,633	\$ 67,282	\$ 70,650	\$ 73,727
Sales tax	30,018	29,923	31,091	36,508	30,563	29,127	32,705	36,926	37,482	35,219
Other taxes and fines	44,909	48,875	53,837	53,525	45,729	33,947	48,419	54,023	63,665	68,183
Contributions ⁵	-	-	11,733	-	-	-	-	-	-	-
Charges for services	23,910	22,267	26,835	27,346	24,127	25,106	29,252	35,065	36,606	39,180
Intergovernmental ⁶	4,417	5,443	5,392	4,689	12,315	15,252	16,327	15,772	12,553	10,276
Licenses, permits and fees ⁶	11,228	10,523	12,786	17,759	13,144	9,422	12,163	10,791	17,356	17,435
Interest and rentals	22,269	15,348	16,288	32,905	26,123	20,145	1,720	13,828	28,469	33,510
Other revenue	13,827	4,985	6,067	7,955	1,091	1,033	1,083	11,537	1,728	3,261
Total Revenues	191,867	181,414	211,271	232,463	208,720	194,938	205,302	245,224	268,509	280,791
Expenditures										
Administration ¹	11,501	13,192	14,721	15,799	16,527	13,954	14,393	15,954	18,040	20,572
Public Works	13,112	14,485	15,426	14,764	14,793	14,692	13,542	17,704	19,013	20,943
Planning and Community Environment ³	9,722	10,568	10,332	10,911	-	-	-	-	-	-
Development Services ^{2,3}	10,643	10,908	11,749	11,549	-	-	-	-	-	-
Planning and Development Services ²	-	-	-	-	20,170	17,115	17,618	20,492	24,502	22,366
Office of Transportation ⁴	-	-	-	-	4,175	3,373	2,700	3,681	5,759	5,747
Public Safety (Police and Fire)	63,784	71,164	73,916	76,344	82,173	76,282	81,594	91,066	99,362	113,736
Community Services	25,511	25,408	29,831	31,619	29,868	26,490	29,968	32,726	39,483	40,618
Library	7,960	8,953	9,120	9,288	9,988	8,528	8,591	9,227	11,243	12,447
Non-departmental	8,068	6,566	7,579	12,231	9,498	4,854	3,806	628	11,348	11,354
Capital Outlay	24,457	39,643	40,971	46,914	66,362	48,114	72,082	68,974	43,934	54,861
Debt service - principal payments	7,130	2,066	2,961	2,101	2,280	2,595	4,712	6,263	8,495	8,895
Debt service - interest and fiscal fees	4,266	3,032	2,956	3,398	5,025	6,147	10,726	6,891	7,300	7,180
Payment to bond refunding escrow	-	-	-	-	-	-	1,640	-	-	-
Total Expenditures	186,154	205,985	219,562	234,918	260,859	222,144	261,372	273,606	288,479	318,719
Excess (Deficiency) of Revenues										
Over (Under) Expenditures	5,713	(24,571)	(8,291)	(2,455)	(52,139)	(27,206)	(56,070)	(28,382)	(19,970)	(37,928)
Other Financing Sources (Uses)										
Issuance of Debt	-	-	8,970	42,297	-	101,505	36,545	-	-	-
Original debt premium	-	-	-	-	-	6,524	4,780	-	-	-
Proceeds from sale of capital assets	-	-	-	2,442	-	100	-	-	-	-
Lease and SBITA financing	-	-	-	-	-	-	-	8,344	-	9,344
Transfers in	61,835	58,331	56,882	54,711	58,397	43,558	46,566	67,752	75,604	88,566
Transfers out	(46,492)	(44,770)	(41,085)	(43,147)	(44,552)	(25,564)	(28,999)	(53,711)	(57,360)	(61,839)
Payments to refund bond escrow	-	-	-	-	-	-	(41,325)	-	-	-
Total Other Financing Sources (Uses)	15,343	13,561	24,767	56,303	13,845	126,123	17,567	22,385	18,244	36,071
Net Change in Fund Balances	\$ 21,056	\$ (11,010)	\$ 16,476	\$ 53,848	\$ (38,294)	\$ 98,917	\$ (38,503)	\$ (5,997)	\$ (1,726)	\$ (1,857)
Debt Service as a Percentage of										
Non-Capital Expenditures	7.1%	3.1%	3.3%	2.8%	3.6%	4.6%	7.6%	5.9%	6.0%	5.4%

Notes: ¹Comprised of the following departments: City Council, City Manager, City Attorney, City Clerk, City Auditor, Administrative Services, and Human Resources.
²The Development Services Department was formed in FY15.
³In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.
⁴In FY20, the City established the Office of Transportation.
⁵Represents contributions from the Stanford University Medical Center in FY18.
⁶In FY23, previous category "From other agencies" changed to "Intergovernmental"; previous category "Permits and licenses" changed to "Licenses, permits and fees."

Source: Annual Financial Statements, Governmental Funds, Statement of Revenues, Expenditures and Changes in Fund Balances

CITY OF PALO ALTO
Electric Operating Revenue by Source *
Last Ten Fiscal Years
(Amounts in thousands)

Fiscal Year	Residential	Commercial & Industrial	City of Palo Alto	Total
2016	\$ 18,191	\$ 86,715	\$ 3,127	\$ 108,033
2017	20,269	90,635	3,780	114,684
2018	22,764	100,200	4,264	127,228
2019	23,613	103,509	4,404	131,526
2020	25,466	107,335	4,286	137,087
2021	26,719	98,582	4,167	129,468
2022	25,446	101,284	4,543	131,273
2023	32,360	126,435	5,761	164,556
2024	32,290	140,029	6,230	178,549
2025	33,623	146,418	6,565	186,606

* The electric operating revenues include sales to customers and City departments, and excludes the sale of surplus energy, utility billing discounts, and bad debt expense.

Top Ten Electric Customers by Revenue¹

Customer (alphabetical order)	Type of Business
City of Palo Alto	Municipal
Communications & Power Industries (CPI)	Manufacturing
Google Inc.	Computer
Hewlett Packard	Computer
SSL (formerly Space Systems/Loral, LLC.)	Manufacturing
Stanford Hospital & Clinic	Hospital
Stanford University	Education
Tesla Inc.	Manufacturing
Varian Medical Systems	Manufacturing
Veterans Administration Hospital	Hospital

¹ The top ten customers accounted for approximately 47.16% of total kWh consumption (429,616,845 kWh) and 40.56% of revenue (\$82,728,619.46). The largest top ten customers accounted for 14.40% of total kWh consumption and 12.81% of revenue. The smallest top ten customers accounted for 1.77% of kWh consumption and 1.57% of revenue.

	Maximum Installations Billed¹	Kilowatt-hour Sales (kWh)	Revenue
Residential	27,260	158,443,296	\$ 33,623
Commercial	3,722	606,343,150	124,207
Industrial	61	115,576,293	22,211
City of Palo Alto	150	30,638,129	6,565
Total	31,193	911,000,868	\$ 186,606

¹Values provided are in terms of the maximum number of meters (installations) billed in any given month by customer sectors within the fiscal year. Individual customers may utilize multiple meters or facilities within Palo Alto which encompass one or more designations (commercial, industrial and/or residential), thus aggregation on the basis of 'number of customers' does not hold for this type of breakdown. The number of active meters in any given month may vary due to patterns of move in, move outs, as well as meter reading cycles.

Source: City of Palo Alto, Utilities and Accounting Departments

CITY OF PALO ALTO
Department of Utilities
Power Supply Resources
For the Fiscal Year Ended June 30, 2025

Source	Capacity Available (MW)	Actual Energy (GWh)	Percent of Total Energy
Purchased Power:			
Solar	152	357	38%
Wind	20	29	3%
Landfill Gas	14	86	9%
Hydro (NCPA)	58	91	10%
Hydro (Western)	132	321	34%
Geothermal	5	21	2%
Net Forward Market Sales/Purchases	-	62	7%
Net Spot Market Sales/Purchases	-	(32)	-3%
Total	N/A ¹	936	100%

Notes: ¹ Capacity availability varies by season and is not necessarily additive at any given time.

In the fiscal year ended June 30, 2025, the City's average cost of power delivered to the Palo Alto electric system was approximately \$0.117 per kWh.

Source: City of Palo Alto, Utilities Department

CITY OF PALO ALTO
Supplemental Disclosure for Water Utilities
For the Fiscal Year Ended June 30, 2025

Top Ten Largest Water Utility Customers (alphabetical order)

City of Palo Alto
Hewlett Packard
OCA Holdings LLC
Palo Alto Hills Golf & Country Club
Palo Alto Unified School District
Simon Property Group
Stanford Hospital & Clinic
Stanford West Management
Veterans Administration Hospital
VMware Inc./Broadcom Inc.

The top ten customers' total consumption is 911,464 CCF with revenue of \$10,291,659 (excluding UUT). This amount accounts for approximately 21.32% of total consumption and 20.09% of the total revenue. The largest customer (other than the City of Palo Alto) accounted for 4.24 % of consumption and 2.12% of revenue. The smallest customer of the top 10 customers accounted for 0.63% of consumption and 0.59% of revenue.

Note: This schedule is provided as required by the Continuing Disclosure Agreement for the City's Utility Revenue Bond and is not required by Governmental Accounting Standards Board (GASB).

Source: City of Palo Alto, Utilities Department

CITY OF PALO ALTO
Supplemental Disclosure for Gas Utilities
For the Fiscal Year Ended June 30, 2025

Top Ten Largest Gas Utility Customers (alphabetical order)

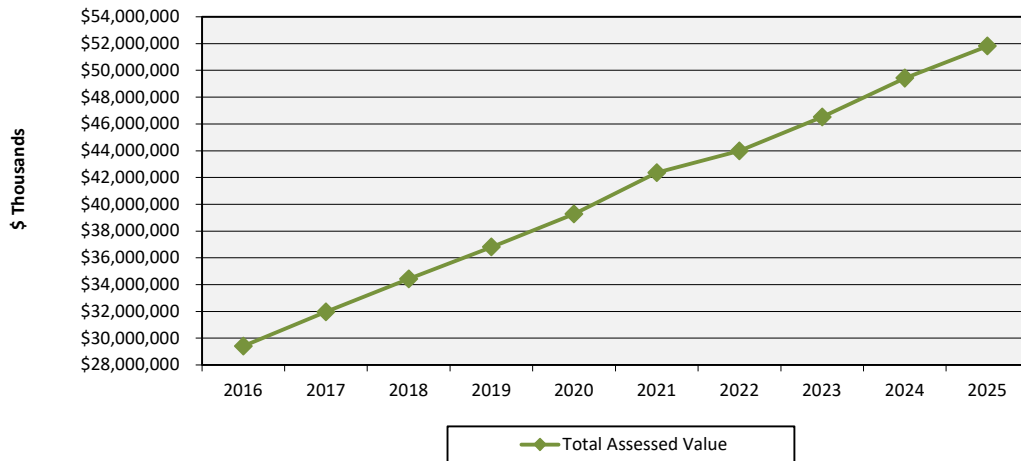
3000 Hanover LLC
City of Palo Alto
Genencor International
Lockheed Martin Space Systems
Palo Alto Unified School District
SSL (formerly Space Systems/Loral, LLC.)
Stanford Hospital & Clinic
Stanford University
Veterans Administration Hospital
VMware Inc./Broadcom Inc.

The top ten customers' total consumption is 5,351,299 THM with revenue of \$10,442,387 (excluding UUT). This accounts for approximately 22.57 % of total consumption and 19.75% of the total revenue. The largest customer accounted for 6.36 % of consumption and 5.54% of revenue. The smallest of the top 10 customers accounted for 0.78% of consumption and 0.68% of revenue.

Note: This schedule is provided as required by the Continuing Disclosure Agreement for the City's Utility Revenue Bond and is not required by Governmental Accounting Standards Board (GASB).

Source: City of Palo Alto, Utilities Department

CITY OF PALO ALTO
Assessed Value of Taxable Property
Last Ten Fiscal Years
(Amounts in thousands)

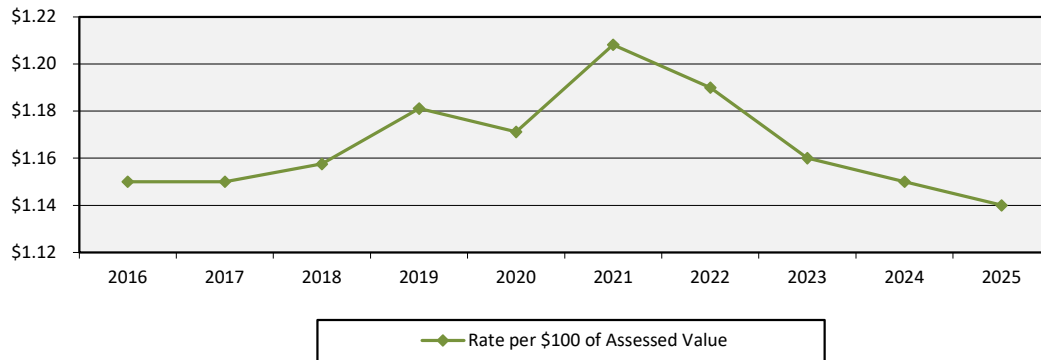


	Fiscal Year Ended June 30									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<u>Net Local Secured Roll</u>										
Land	\$ 15,718,665	\$ 17,333,969	\$ 18,770,642	\$ 20,386,904	\$ 22,186,582	\$ 24,028,178	\$ 25,332,564	\$ 27,448,389	\$ 29,290,422	\$ 30,870,753
Improvements	14,998,502	16,752,295	18,642,970	19,845,666	21,183,768	22,706,856	23,600,092	24,531,946	25,675,560	26,554,313
Personal property	310,929	306,576	300,352	181,381	194,646	198,396	153,837	134,129	162,988	316,795
	31,028,096	34,392,840	37,713,964	40,413,951	43,564,996	46,933,430	49,086,493	52,114,464	55,128,970	57,741,861
<u>Less:</u>										
Exemptions net of state aid	(3,409,836)	(4,244,500)	(5,203,968)	(5,522,323)	(6,233,220)	(6,781,123)	(7,342,627)	(7,687,087)	(8,044,643)	(8,405,670)
Total Net Local Secured Roll	27,618,260	30,148,340	32,509,996	34,891,628	37,331,776	40,152,307	41,743,866	44,427,377	47,084,327	49,336,191
Public utilities	2,573	2,573	2,573	7,004	7,004	7,004	7,004	7,004	7,004	7,004
Unsecured property	1,794,921	1,803,468	1,922,170	1,902,781	1,946,680	2,194,615	2,232,482	2,088,552	2,331,567	2,461,562
Total Assessed Value	<u>\$ 29,415,754</u>	<u>\$ 31,954,381</u>	<u>\$ 34,434,739</u>	<u>\$ 36,801,413</u>	<u>\$ 39,285,460</u>	<u>\$ 42,353,926</u>	<u>\$ 43,983,352</u>	<u>\$ 46,522,933</u>	<u>\$ 49,422,898</u>	<u>\$ 51,804,757</u>
Total Direct Tax Rate	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%

Note: The State Constitution requires property to be assessed at 100% of the most recent purchase price, plus an increment of no more than 2% annually, plus any local over-rides. These values are considered to be full market values.

Source: County of Santa Clara, Controller-Treasurer Department

**CITY OF PALO ALTO
Property Tax Rates
All Overlapping Governments
Last Ten Fiscal Years**



Fiscal Year	Basic County Wide Levy	County Retirement Levy	County Hospital G.O. Bond (Measure A)	City Library G.O. Bond (Measure N)	Santa Clara Valley Water District	School District	Community College	Midpeninsula Regional Open Space ¹	County Affordable Housing Bond (Measure A) ²	Total Direct and Overlapping Rates
2016	1.00	0.0388	0.0088	0.0148	0.0057	0.0604	0.0240	0.0008	-	1.15
2017	1.00	0.0388	0.0086	0.0129	0.0086	0.0591	0.0234	0.0006	-	1.15
2018	1.00	0.0388	0.0082	0.0118	0.0062	0.0570	0.0220	0.0009	0.0127	1.16
2019	1.00	0.0388	0.0072	0.0111	0.0042	0.0858	0.0217	0.0018	0.0105	1.18
2020	1.00	0.0388	0.0069	0.0106	0.0041	0.0783	0.0208	0.0016	0.0100	1.17
2021	1.00	0.0388	0.0069	0.0096	0.0037	0.1113	0.0364	0.0015	-	1.21
2022	1.00	0.0388	0.0061	0.0092	0.0051	0.0789	0.0331	0.0015	0.0126	1.19
2023	1.00	0.0388	0.0063	0.0082	0.0044	0.0563	0.0291	0.0013	0.0108	1.16
2024	1.00	0.0388	0.0055	0.0081	0.0041	0.0505	0.0278	0.0012	0.0095	1.15
2025	1.00	0.0388	0.0055	0.0076	0.0041	0.0483	0.0286	0.0013	0.0043	1.14

Notes: ¹The Midpeninsula Regional Open Space District Bond Issue and Property Tax, Measure AA, passed in 2014. Rates were first levied for the 2015-16 fiscal year.

²The Santa Clara County Affordable Housing Bond - Measure A 2016 passed on November 8, 2016. Rates were first levied for the 2017-18 fiscal year.

Source: County of Santa Clara, Tax Rates and Information

CITY OF PALO ALTO
Property Tax Levies and Collections
Last Ten Fiscal Years
(Amounts in thousands)

Fiscal Year Ended June 30	Total Tax Levy for FY ¹	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years ²	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2016	\$ 36,607	\$ 36,607	100%	-	\$ 36,607	100%
2017	39,381	39,381	100%	-	39,381	100%
2018	42,839	42,839	100%	-	42,839	100%
2019	47,327	47,327	100%	-	47,327	100%
2020	51,089	51,089	100%	-	51,089	100%
2021	56,572	56,572	100%	-	56,572	100%
2022	59,353	59,353	100%	-	59,353	100%
2023	63,129	63,129	100%	-	63,129	100%
2024	66,344	66,344	100%		66,344	100%
2025	69,402	69,402	100%		69,402	100%

Notes: ¹During fiscal year 1995, the County of Santa Clara began providing the City 100% of its tax levy under an agreement which allows the County of Santa Clara to keep all interest and delinquency charges collected.

²Effective fiscal year 1994, the City is on the Teeter Plan, under which the County of Santa Clara pays the full tax levy due.

Source: Annual Financial Statements, Government Funds, Statement of Revenues, Expenditures and Changes in Fund Balance.

CITY OF PALO ALTO
Principal Property Taxpayers
Current Year and Nine Years Ago
(Amounts in thousands)

Taxpayer	Fiscal Year 2025			Fiscal Year 2016		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Leland Stanford Jr. University	\$ 7,398,938	1	15.0%	\$ 3,952,158	1	13.4%
Google Inc.	385,453	2	0.8%	158,245	3	0.5%
ARE-San Francisco 80 LLC	312,011	3	0.6%	n/a	n/a	n/a
ARE-San Francisco 69 LLC	153,668	4	0.3%	n/a	n/a	n/a
395 Page Mill LLC	131,970	5	0.3%	n/a	n/a	n/a
Park Village Peninsula LLC	130,744	6	0.3%	n/a	n/a	n/a
Palo Alto Tech Center LLC	121,332	7	0.2%	n/a	n/a	n/a
KRE El Camino Real Owner LLC	109,941	8	0.2%	n/a	n/a	n/a
M10 Dev LLC	89,833	9	0.2%	n/a	n/a	n/a
SI 45 LLC	89,941	10	0.2%	n/a	n/a	n/a
SSL (formerly Space Systems/Loral, LLC)	n/a	n/a	n/a	215,180	2	0.7%
PPF OFF 3301 Hillview Avenue LP	n/a	n/a	n/a	130,150	4	0.4%
EOSII Palo Alto Technology Ctr	n/a	n/a	n/a	121,692	5	0.4%
Whisman Ventures, LLC	n/a	n/a	n/a	112,001	6	0.4%
SI 43 LLC	n/a	n/a	n/a	76,823	7	0.3%
BVK Hamilton Ave LLC	n/a	n/a	n/a	69,290	8	0.2%
Ronald & Ann Williams Charitable Foundation	n/a	n/a	n/a	62,685	9	0.2%
PPC Forest Towers LLC	n/a	n/a	n/a	56,610	10	0.2%
Total	<u>\$ 8,923,831</u>		<u>18.1%</u>	<u>\$ 4,954,834</u>		<u>16.7%</u>

Total City Taxable Assessed Value:

FY 2025	\$ 49,336,191
FY 2016	\$ 29,415,754

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Assessed Valuation and Parcels by Land Use
As of June 30, 2025

	2024-2025 Assessed Valuation¹	% of Total	No. of Parcels	% of Total	No. of Taxable Parcels	% of Total
<u>Non-Residential:</u>						
Agricultural/forest	\$ 41,474,205	0.08 %	49	0.23 %	31	0.15 %
Commercial	2,284,806,785	4.63	442	2.11	437	2.13
Professional/office	8,227,574,576	16.68	597	2.85	563	2.74
Industrial/research & development	2,267,311,286	4.60	220	1.05	214	1.04
Recreational	82,306,819	0.17	14	0.07	12	0.06
Government/social/institutional	69,791,982	0.14	121	0.58	56	0.27
Miscellaneous	9,250,505	0.02	18	0.09	17	0.08
Subtotal Non-Residential	12,982,516,158	26.31	1,461	6.96	1,330	6.47
<u>Residential:</u>						
Single family residence	30,065,401,035	60.94	15,241	72.64	15,169	73.85
Condominium/townhouse	3,170,373,033	6.43	3,075	14.66	3,075	14.97
Mobile Home	580,345	0.00	11	0.05	11	0.05
2-4 Residential units	699,435,374	1.42	487	2.32	487	2.37
5+ Residential units	2,135,015,568	4.33	362	1.73	337	1.64
Subtotal Residential	36,070,805,355	73.11	19,176	91.39	19,079	92.88
Vacant Parcels	282,869,586	0.57	345	1.64	132	0.64
Total	\$ 49,336,191,099	100 %	20,982	100 %	20,541	100 %

Notes: This schedule is provided as required by the Continuing Disclosure Agreement for the City's 2013A General Obligation Bonds and is not required by Governmental Accounting Standards Board (GASB). Therefore, ten years of comparison data is not presented.

¹Local secured assessed valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Per Parcel Assessed Valuation of Single Family Residential
As of June 30, 2025

	No. of Taxable Parcels¹	2024-2025 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	15,169	\$30,065,401,035	\$1,982,029	\$1,459,908

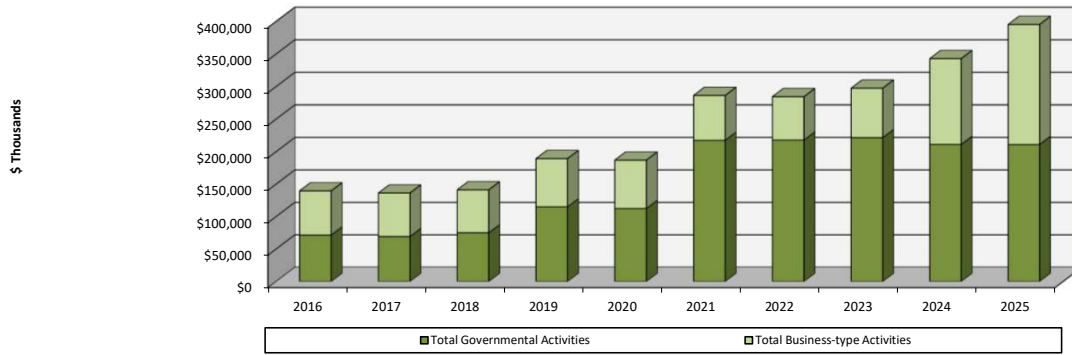
2024-2025 Assessed Valuation	No. of Taxable Parcels¹	% of Total Parcels	Cumulative % of Total Parcels	Total Valuation	% of Total Valuation	Cumulative % of Total Valuation
\$0-199,999	1,737	11.45 %	11.45 %	\$ 218,484,199	0.73 %	0.73 %
\$200,000-399,999	1,183	7.80	19.25	350,584,339	1.17	1.89
\$400,000-599,999	939	6.19	25.44	468,956,422	1.56	3.45
\$600,000-799,999	1,024	6.75	32.19	711,927,222	2.37	5.82
\$800,000-999,999	814	5.37	37.56	729,220,149	2.43	8.25
\$1,000,000-1,199,999	927	6.11	43.67	1,016,268,840	3.38	11.63
\$1,200,000-1,399,999	770	5.08	48.74	997,723,380	3.32	14.94
\$1,400,000-1,599,999	663	4.37	53.11	993,936,796	3.31	18.25
\$1,600,000-1,799,999	659	4.34	57.46	1,119,640,153	3.72	21.97
\$1,800,000-1,999,999	604	3.98	61.44	1,144,657,078	3.81	25.78
\$2,000,000-2,199,999	523	3.45	64.89	1,098,553,051	3.65	29.44
\$2,200,000-2,399,999	456	3.01	67.90	1,048,351,682	3.49	32.92
\$2,400,000-2,599,999	450	2.97	70.86	1,126,764,447	3.75	36.67
\$2,600,000-2,799,999	492	3.24	74.11	1,326,784,223	4.41	41.08
\$2,800,000-2,999,999	503	3.32	77.42	1,455,215,463	4.84	45.92
\$3,000,000-3,199,999	461	3.04	80.46	1,427,114,733	4.75	50.67
\$3,200,000-3,399,999	402	2.65	83.11	1,323,471,548	4.40	55.07
\$3,400,000-3,599,999	329	2.17	85.28	1,150,713,572	3.83	58.90
\$3,600,000-3,799,999	287	1.89	87.17	1,060,980,933	3.53	62.43
\$3,800,000-3,999,999	241	1.59	88.76	937,819,657	3.12	65.55
\$4,000,000 and greater	1,705	11.24	100.00	10,358,233,148	34.45	100.00
Total	<u>15,169</u>	<u>100.00</u> %		<u>\$ 30,065,401,035</u>	<u>100.00</u> %	

Notes: This schedule is provided as required by the Continuing Disclosure Agreement for the City's 2013A General Obligation Bonds and is not required by Governmental Accounting Standards Board (GASB). Therefore, ten years of comparison data is not presented.

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

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(Amounts in thousands)



	Fiscal Year Ended June 30									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Governmental Activities										
Certificates of Participation	\$ 1,135	\$ 975	\$ 8,970	\$ 46,305	\$ 45,750	\$ 146,440	\$ 145,605	\$ 144,745	\$ 141,720	\$ 138,550
General Obligation Bonds	65,210	63,710	62,140	60,500	58,775	56,995	48,715	48,230	46,620	44,715
2011 Lease-Purchase Agreement	1,248	842	426	-	-	-	-	-	-	-
Add: unamortized premium	3,926	3,768	3,610	8,331	7,980	14,099	15,925	15,216	14,506	13,796
Lease Liabilities ²	-	-	-	-	-	-	7,728	10,590	6,042	11,243
SBITA Liabilities ²	-	-	-	-	-	-	-	2,853	2,404	2,877
Total Governmental Activities	71,519	69,295	75,146	115,136	112,505	217,534	217,973	221,634	211,292	211,181
Business-type Activities										
Utility Revenue Bonds	54,095	50,825	47,400	43,815	40,060	36,130	32,015	27,715	23,230	20,440
Energy Tax Credits	600	500	400	300	200	100	-	-	-	-
State Water Resources Loan	12,681	15,034	17,711	29,589	33,808	32,288	31,949	42,338	101,943	153,844
Add: unamortized premium (discount), net	737	673	608	544	468	392	315	234	152	66
Lease Liabilities	-	-	-	-	-	-	2,277	1,979	901	5,101
SBITA Liabilities	-	-	-	-	-	-	-	3,737	5,404	4,812
Total Business-type Activities	68,113	67,032	66,119	74,248	74,536	68,910	66,556	76,003	131,630	184,263
Total Primary Government Outstanding Debt	\$ 139,632	\$ 136,327	\$ 141,265	\$ 189,384	\$ 187,041	\$ 286,444	\$ 284,529	\$ 297,637	\$ 342,922	\$ 395,444
Percentage of Personal Income ¹	2.44%	2.23%	2.14%	2.62%	2.45%	3.50%	3.05%	3.00%	3.47%	3.78%
Population	66,968	66,478	66,649	67,082	67,019	66,573	67,973	68,624	67,901	67,231
Debt Per Capita	\$ 2.09	\$ 2.05	\$ 2.12	\$ 2.82	\$ 2.79	\$ 4.30	\$ 4.19	\$ 4.34	\$ 5.05	\$ 5.88

Notes: ¹See the schedule of Demographic and Economic Statistics for personal income data. Per capita personal income is only available for Santa Clara County, therefore personal income is the product of the countywide per capita amount and the City's population.

²Lease and Subscription Based Information Technology Arrangement (SBITA) liabilities are included upon the implementation of GASB Statement No. 87 in FY 22 and GASB Statement No. 96 in FY 23.

Sources: County of Santa Clara (assessed valuation)
Official City Data Set (population)
California Department of Transportation Long-Term Socio-Economic Forecasts (personal income)
Annual Financial Statements, Note 6 Leases and SBITA and Note 8 Long-Term Debt

CITY OF PALO ALTO
Computation of Direct and Overlapping Debt
As of June 30, 2025

2024-2025 Assessed Value \$ 51,804,757,406

	Total Debt	Percentage	Amount
	Outstanding	Applicable	Applicable
		to City of	to City of
<u>Direct and Overlapping Tax and Assessment Debt</u>		Palo Alto¹	Palo Alto
Santa Clara County	\$ 1,217,905,000	7.449%	\$ 90,721,743
Foothill-DeAnza Community College District	592,800,578	20.935%	124,102,801
Palo Alto Unified School District	384,840,483	90.164%	346,987,573
Fremont Union High School District	717,450,088	0.008%	57,396
Los Gatos-Saratoga Joint Union High School District	72,445,000	0.011%	7,969
Mountain View-Los Altos Union High School District	245,162,900	0.787%	1,929,432
Cupertino Union School District	294,953,303	0.014%	41,293
Los Altos School District	128,450,000	1.044%	1,341,018
Mountain View-Whisman School District	415,490,000	0.585%	2,430,617
Saratoga Union School District	10,336,159	0.026%	2,687
Whisman School District	1,421,091	1.396%	19,838
City of Palo Alto	44,715,000	100.00%	44,715,000
El Camino Hospital District	98,789,066	0.064%	63,225
Midpeninsula Regional Open Space District	114,920,000	12.118%	13,926,006
City of Palo Alto Special Assessment Bonds	11,470,000	100.000%	11,470,000
Santa Clara Valley Water District Benefit Assessment District	24,940,000	7.449%	1,857,781
Total Direct and Overlapping Tax and Assessment Debt			<u>639,674,379</u>
<u>Direct and Overlapping General Fund Debt</u>			
Santa Clara County General Fund Obligations	1,002,458,930	7.449%	74,673,166
Santa Clara County Pension Obligations	317,654,990	7.449%	23,662,120
Santa Clara County Board of Education Certificates of Participation	12,072,417	7.449%	899,274
Mountain View-Los Altos Union High School District General Fund Obligations	1,085,000	0.787%	8,539
Cupertino Union School District General Fund Obligations	40,233,350	0.014%	5,633
Los Altos School District General Fund Obligations	911,776	1.044%	9,519
Saratoga Union High School District Certificates of Participation	990,000	0.026%	257
City of Palo Alto General Fund Obligations	138,550,000	100.00%	138,550,000
Midpeninsula Regional Open Space Park District General Fund Obligations	74,065,600	12.118%	8,975,269
Total Gross Direct and Overlapping General Fund Debt			\$ 246,783,777
Less: Santa Clara County supported obligations			180,266
Total Net Direct and Overlapping General Fund Debt			\$ 246,603,511
Total Combined Debt			<u>\$ 886,277,890</u>
	Ratio to		
	Assessed Value		
Total Direct Debt	0.41%		\$ 211,181,000 ³
Total Overlapping Debt	1.36%		703,012,890
Total Direct and Overlapping Debt	1.76%		<u>\$ 914,193,890 ²</u>

Notes: ¹The percentage of overlapping debt applicable to the City is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the City divided by the district's total taxable assessed value.

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

³Includes unamortized premium, lease liabilities and SBITA liabilities.

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Computation of Legal Bonded Debt Margin
As of June 30, 2025
(Amounts in thousands)

Assessed Valuation:	
Secured property assessed value, net of exempt real property	\$ 51,804,757
Bonded Debt Limit (3.75% of Assessed Value) ¹	<u>1,942,678</u>
Direct Debt:	
Certificates of Participation	138,550
General Obligation bonds	<u>44,715</u>
Total Direct Debt ³	183,265
Less: Amount of Debt Not Subject to Limit ²	<u>138,550</u>
Total Net Debt Applicable to Limit	<u>44,715</u>
Legal Bonded Debt Margin	<u>\$ 1,897,963</u>

Fiscal Year	Total Assessed Value (AV)	Bonded Debt Limit (3.75% of AV)	Total Net Debt Applicable to Limit	Legal Bonded Debt Margin	Population	Total Net Debt Applicable as % of Bonded Debt Limit	Ratio of Net Debt to Assessed Value	General Bonded Debt Per Capita
2016	\$ 29,415,754	\$ 1,103,091	\$ 65,210	\$ 1,037,881	66,968	5.91%	0.0022	\$ 0.97
2017	31,954,381	1,198,289	63,710	1,134,579	66,478	5.32%	0.0020	\$ 0.96
2018	34,434,739	1,291,303	62,140	1,229,163	66,649	4.81%	0.0018	\$ 0.93
2019	36,801,413	1,380,053	60,500	1,319,553	67,082	4.38%	0.0016	\$ 0.90
2020	39,285,460	1,473,205	58,775	1,414,430	67,019	3.99%	0.0015	\$ 0.88
2021	42,353,926	1,588,272	56,995	1,531,277	66,573	3.59%	0.0013	\$ 0.86
2022	43,983,352	1,649,376	48,715	1,600,661	67,973	2.95%	0.0011	\$ 0.72
2023	46,522,933	1,744,610	48,230	1,696,380	68,624	2.76%	0.0010	\$ 0.70
2024	49,422,898	1,853,359	46,620	1,806,739	67,901	2.52%	0.0009	\$ 0.69
2025	51,804,757	1,942,678	44,715	1,897,963	67,231	2.30%	0.0009	\$ 0.67

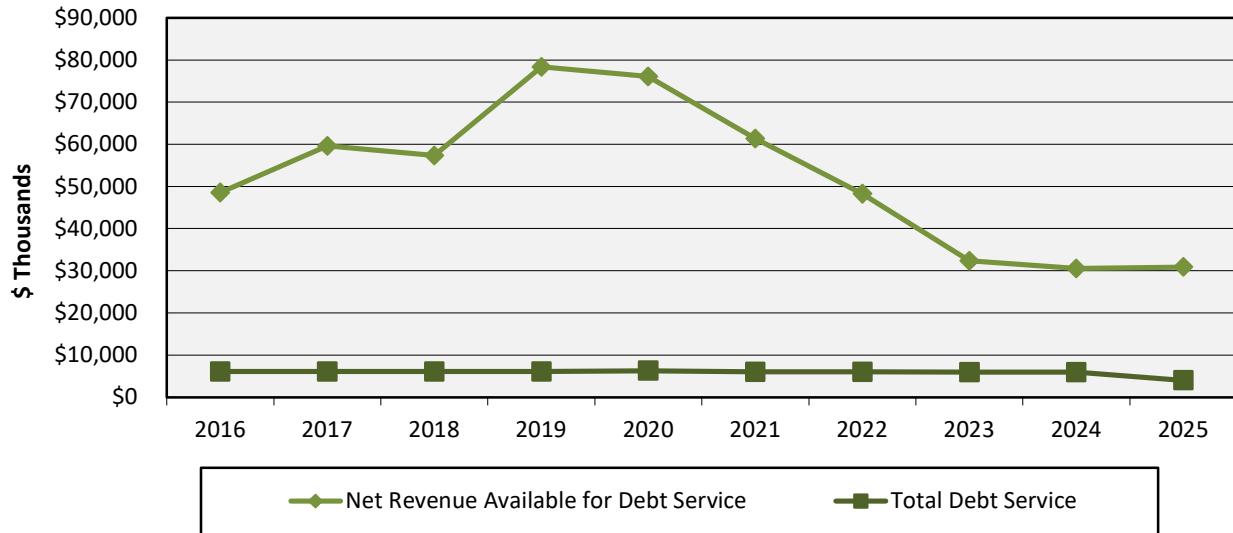
Notes: ¹California Government Code, Section 43605 sets the debt limit at 15% of the assessed value of all real and personal property of the City. Because this Code section was enacted when assessed value was 25% of market value, the limit is calculated at one-fourth, or 3.75%. This legal debt margin applies to General Obligation debt. Prior year limits have been adjusted to conform to the current year methodology.

²In accordance with California Government Code Section 43605, only the City's General Obligation bonds are subject to the legal debt limit of 15%. Enterprise Fund debt is not subject to legal debt margin.

³Total direct debt excludes any premiums, discounts or other amortization amounts.

Source: Annual Financial Statements, Assessed Value of Taxable Property and Note 8 Long-Term Debt

CITY OF PALO ALTO
Revenue Bond Coverage
Business-type Activities¹
Last Ten Fiscal Years
(Amounts in thousands)



Fiscal Year	Gross Revenue	Less:		Net Revenue Available for Debt Service	Debt Service			Coverage Ratio
		Direct Operating Expenses ²			Principal	Interest ³	Total	
2016	\$ 235,386	\$ 186,793		\$ 48,593	\$ 3,230	\$ 2,823	\$ 6,053	8.03
2017	264,734	205,102		59,632	3,370	2,678	6,048	9.86
2018	288,610	231,255		57,355	3,525	2,524	6,049	9.48
2019	306,237	227,824		78,413	3,685	2,359	6,044	12.97
2020	313,317	237,223		76,094	3,855	2,419	6,274	12.13
2021	309,363	247,962		61,401	4,030	2,008	6,038	10.17
2022	316,150	267,866		48,284	4,215	1,801	6,016	8.03
2023	180,856	148,461		32,395	4,300	1,621	5,921	5.47
2024	174,529	143,967		30,562	4,485	1,429	5,914	5.17
2025	115,950	85,026		30,924	2,790	1,235	4,025	7.68

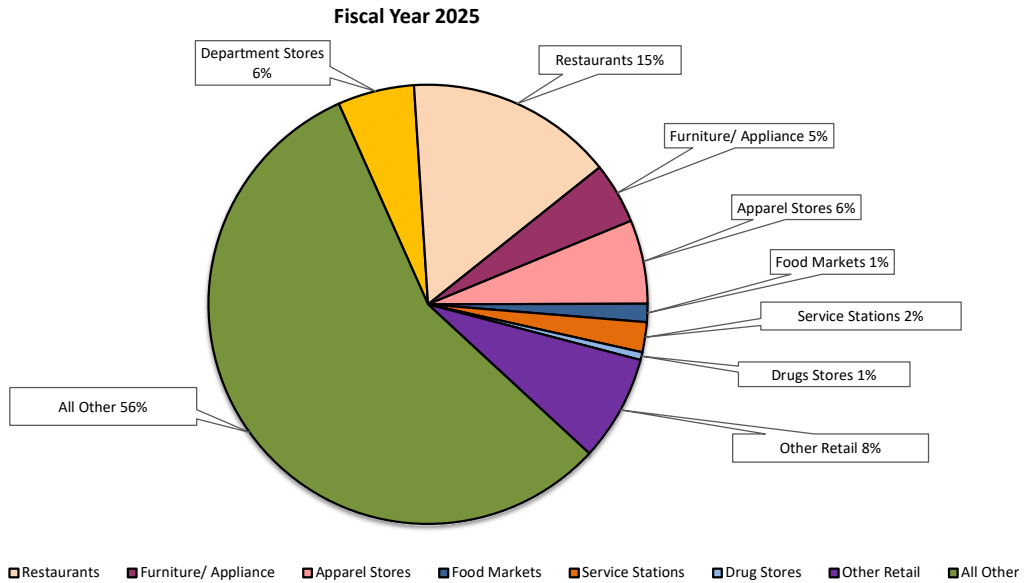
Notes: ¹Airport, Refuse and Fiber Optics funds have no debt and are therefore excluded from this schedule. Beginning fiscal year 2023, Electric fund has no debt and is therefore excluded. Beginning fiscal year 2025, WW Collection, WW Treatment and Storm Drain funds have no outstanding debt and are related balances are excluded.

²Excludes depreciation and amortization expense.

³Excludes joint venture debt service and federal interest subsidy.

Source: City of Palo Alto, Accounting Department

CITY OF PALO ALTO
Taxable Transactions by Type of Business
Last Ten Fiscal Years
(Amounts in thousands)



ECONOMIC SEGMENT

Fiscal Year	Department Stores	Restaurants	Furniture/ Appliance	Apparel Stores	Food Markets	Service Stations	Drug Stores	Other Retail	All Other	Total
2016	\$ 2,250	\$ 4,134	\$ 1,410	\$ 1,694	\$ 448	\$ 582	\$ 257	\$ 4,949	\$ 12,423	\$ 28,147
2017	2,036	4,079	1,513	1,794	542	502	259	3,810	14,325	28,860
2018	2,001	4,224	1,716	1,647	428	614	243	3,184	15,663	29,720
2019	1,934	4,299	1,795	1,994	409	706	810	2,245	22,254	36,446
2020 ¹	1,260	3,488	1,421	1,391	417	572	1,413	1,597	18,313	29,872
2021 ¹	1,125	2,410	980	1,283	332	489	700	2,062	18,744	28,125
2022	1,700	3,805	1,383	1,833	393	811	309	2,354	18,948	31,536
2023	1,809	4,516	1,638	1,914	430	870	202	2,113	22,298	35,790
2024	1,898	4,814	1,239	2,031	444	869	200	2,558	22,310	36,363
2025	1,933	5,227	1,539	2,111	457	756	196	2,668	19,296	34,183

Source: MuniServices

Sales Tax Rates for the Fiscal Year Ended June 30, 2025

State Rate: 7.25%

Special District Tax Rates:

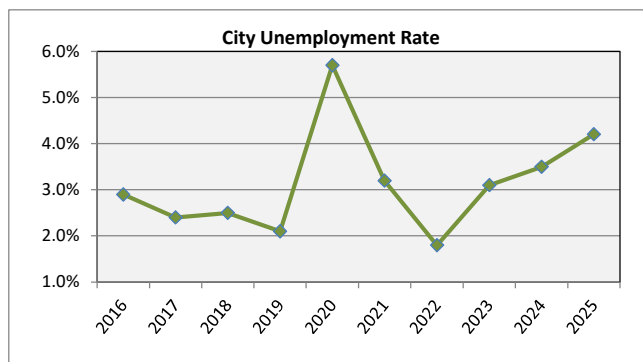
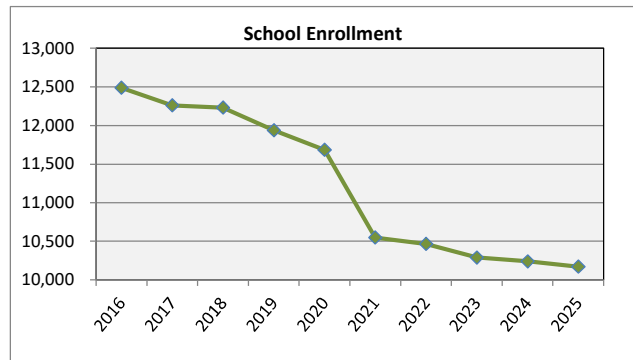
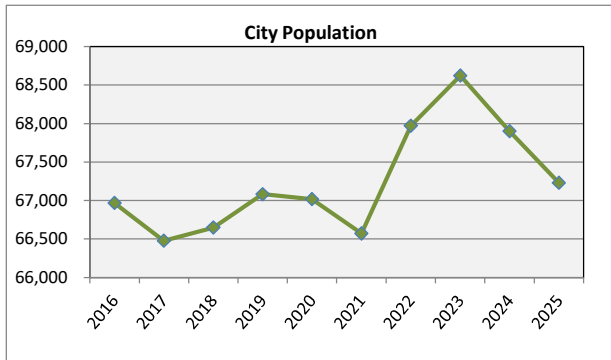
Santa Clara County Transit District (SCCT) 0.50%
 Santa Clara County Valley Transportation Authority (SCVT) 0.50%
 Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax (SVTB) 0.125%
 Santa Clara County Retail Transactions and Use Tax (SCCR) 0.125%
 Silicon Valley Transportation Solutions Tax (SVTS) 0.50%
 2020 Peninsula Corridor Joint Powers Board Retail Transactions and Use Tax (JPBC) 0.125%

Total Sales and Use Tax Rate: 9.125%

Notes: ¹Decrease due to the adverse impact of coronavirus COVID-19 since March 2020.

Source: California Department of Tax and Fee Administration

CITY OF PALO ALTO
Demographic and Economic Statistics
Last Ten Fiscal Years



Fiscal Year	City of Palo Alto Population	City of Palo Alto Unemployment Rate	City of Palo Alto School Enrollment	Santa Clara County Population	City Population as a Percentage of County Population	Santa Clara County Total Personal Income (in thousands)	Santa Clara County Per Capita Personal Income
2016	66,968	2.9%	12,488	1,914,457	3.50%	163,500,000 *	85,403 *
2017	66,478	2.4%	12,261	1,925,914	3.45%	177,100,000 *	91,956 *
2018	66,649	2.5%	12,230	1,932,947	3.45%	191,800,000 *	99,227 *
2019	67,082	2.1%	11,938	1,937,985	3.46%	209,200,000 *	107,947 *
2020	67,019	5.7%	11,683	1,936,521	3.46%	220,900,000 *	114,071 *
2021	66,573	3.2%	10,549	1,925,225 *	3.46%	237,000,000 *	123,102 *
2022	67,973	1.8%	10,466	1,899,154 *	3.58%	260,600,000 *	137,219 *
2023	68,624	3.1%	10,289	1,882,601 *	3.65%	272,600,000 *	144,800 *
2024	67,901	3.5%	10,240	1,873,789 *	3.62%	272,600,000 *	145,481 *
2025	67,231	4.2%	10,172	1,870,028	3.60%	291,300,000	155,773

Note: Data on personal income and per capita personal income is only available for Santa Clara County.

Source: The City population is sourced from the US Census Bureau American Community Survey (via the City of Palo Alto's Official City Data Set).
State of California Employment Development Office (unemployment rate)

Palo Alto Unified School District (school enrollment)

* California Department of Transportation Long-Term Socio-Economic Forecasts (population and personal income). Forecasts from prior years are updated.

CITY OF PALO ALTO
Principal Employers⁴
Current Year and Nine Years Ago

Employer	FY 2025 ¹			FY 2016		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Stanford (University and Healthcare) ³	18,000	1	16.1%	n/a	n/a	n/a
Broadcom Inc. (VMware Inc) ²	2,781	2	2.5%	3,500	5	2.7%
Varian Medical Systems	1,710	3	1.5%	1,400	10	1.1%
Hewlett-Packard Company	1,632	4	1.5%	2,500	8	1.9%
Veterans Affairs Palo Alto Health Care System	1,323	5	1.2%	3,900	4	3.0%
Wilson Sonsini Goodrich & Rosati	1,100	6	1.0%	n/a	n/a	n/a
City of Palo Alto	1,092	7	1.0%	n/a	n/a	n/a
Roche Palo Alto LLC	1,050	8	0.9%	n/a	n/a	n/a
Brocade Communications Systems LLC	800	9	0.7%	n/a	n/a	n/a
Workday, Inc.	714	10	0.6%	n/a	n/a	n/a
Stanford University	n/a	n/a	n/a	11,500	1	9.0%
Stanford Health Care	n/a	n/a	n/a	5,000	2	3.9%
Lucile Packard Children's Hospital	n/a	n/a	n/a	4,700	3	3.7%
SAP	n/a	n/a	n/a	3,500	5	2.7%
Space Sytems/Loral	n/a	n/a	n/a	2,800	7	2.2%
Palo Alto Medical Foundation	n/a	n/a	n/a	2,200	9	1.7%
Total	30,202		27%	41,000		31.9%

Estimated Total City Day Population:

FY 2025	112,081
FY 2016	128,282

Notes: ¹Principal employers and number of employees for FY25 were obtained by NOVAworks.
²Broadcom Inc acquired VMware in 2023.
³This employer has its own Zip Code (94305), and includes Stanford university, hospitals and healthcare facilities.
⁴Available data sources are limited and may be unreliable.

Source: NOVAworks
2024 Official City Data Set (City Day Population)

CITY OF PALO ALTO
Operating Indicators by Function/Program
Last Ten Fiscal Years¹

FUNCTIONS/PROGRAMS	Fiscal Year Ended June 30			
	2015	2016	2017	2018
<u>Governmental activities</u>				
Community Services				
Number of theater performances	172	161	171	160
Total hours of athletic field usage ²	47,504	65,723	71,431	65,443
Number of rounds of golf	42,048	42,573	-	6,790
Enrollment in recreation classes (includes summer camps)	12,586	12,974	11,649	10,652
Planning and Community Environment				
Planning applications completed	335	383	365	376
Building permits issued	3,844	3,492	2,970	3,105
Caltrain average weekday boarding ³	8,294	9,622	9,994	9,977
Police				
Calls for service	59,795	53,870	53,901	55,480
Total arrests	3,273	2,988	2,745	2,678
Parking citations issued	41,412	37,624	33,661	37,441
Animal Services				
Number of service calls	2,013	2,421	1,674	1,737
Number of animals handled	2,143	2,184	2,211	2,077
Fire				
Calls for service	8,548	8,882	9,153	8,981
Number of fire incidents	135	150	155	189
Number of fire inspections ⁴	1,964	2,806	5,476	9,581
Library				
Total number of cardholders	51,792	57,307	54,676	56,159
Total number of items in collection	429,460	461,292	427,548	472,895
Total checkouts	1,499,406	1,400,926	1,524,614	1,538,118
Public Works				
Street resurfacing (lane miles)	31	39	39	31
Number of potholes repaired	2,487	3,435	3,449	2,835
Sq. ft. of sidewalk replaced or permanently repaired	120,776	115,293	17,275	38,557
Number of trees planted	305	387	319	411
Tons of materials recycled or composted	50,546	56,438	60,582	57,744
<u>Business-type activities</u>				
Electric				
Number of customer accounts	29,065	29,304	29,616	29,475
Residential MWH consumed	145,284	150,112	148,986	149,526
Gas				
Number of customer accounts	23,461	23,467	23,637	23,395
Residential therms consumed	8,537,754	9,535,377	10,233,669	10,261,276
Water				
Number of customer accounts	20,061	19,994	20,213	20,000
Residential water consumption (CCF)	2,052,176	1,696,383	1,856,879	2,120,588
Wastewater collection				
Number of customer accounts	21,990	22,016	22,216	21,979
Millions of gallons processed	6,512	6,387	7,176	6,464

Notes: ¹Ten most recent years available.

²According to the department, this measure was not accurately tracked during FY20 and FY22 and thus are not presented.

³ From FY20 to FY23, the count was not provided due to COVID-19.

⁴The method for calculating the number of fire inspections changed in FY17. The department uses a more detailed feature which categorizes inspections by type and location. In FY22, only State Mandated Inspections number reported, other types unavailable.

Source: City of Palo Alto Performance Report (formerly the Service Efforts and Accomplishments Report); Official City Data Set (Caltrain); 2019-2024 data supplied by City of Palo Alto Departments.

Fiscal Year Ended June 30					
2019	2020	2021	2022	2023	2024
175	191	63	186	131	223
67,608	-	45,705	-	35,660	44,130
54,619	42,429	63,352	64,157	56,314	59,526
13,553	12,997	6,919	12,889	13,037	14,148
327	262	246	233	282	236
2,918	2,476	2,883	2,977	2,882	4,216
10,400	-	-	-	-	3,761
54,479	48,394	39,703	39,138	40,023	39,559
2,388	1,568	1,388	1,354	1,462	1,265
33,496	20,261	2,423	16,279	17,067	13,826
2,550	3,081	2,322	2,945	2,943	2,926
2,125	2,361	1,746	2,114	2,485	2,296
8,843	8,102	7,209	8,334	9,219	9,410
133	140	144	117	138	136
10,984	9,602	7,347	395	288	348
68,034	66,530	55,672	54,334	53,787	56,461
485,157	514,162	522,760	538,416	531,770	537,708
1,470,551	1,194,673	842,787	1,214,928	1,249,621	1,351,949
10	7	20	6	7	20
2,929	1,761	1,108	2,105	2,105	1,990
66,662	48,847	11,218	24,650	13,393	15,350
403	346	146	131	224	301
55,900	51,852	46,168	49,467	52,500	52,300
29,616	29,849	29,825	29,895	30,002	30,063
146,036	153,976	164,629	154,220	160,320	155,908
23,664	23,770	23,794	23,798	23,837	23,932
9,794,177	10,382,762	10,657,987	9,832,943	11,178,009	8,897,550
20,012	20,608	20,650	20,658	20,533	20,580
2,058,663	2,241,461	2,429,941	2,149,913	1,852,852	1,930,489
22,216	22,410	22,393	22,414	22,499	22,631
6,958	6,294	5,529	5,621	6,639	7,100

CITY OF PALO ALTO
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

FUNCTION/PROGRAM	Fiscal Year Ended June 30				
	2016	2017	2018	2019	2020
Public Safety					
Fire:					
Fire Stations Operated	7	7	7	7	7
Police:					
Police Stations	1	1	1	1	1
Police Patrol Vehicles	30	30	30	30	29
Community Services					
Acres - Downtown/Urban Parks ¹	-	-	-	-	-
Acres - Open Space ¹	-	-	-	-	-
Acres - Parks and Preserves ¹	3,921	174	174	174	174
Acres - Open Space ¹	4,489	4,030	4,030	4,030	4,018
Acres - Municipal Golf Course ¹	-	181	181	181	181
Parks and Preserves ²	36	36	36	36	36
Golf Course (see above for acreage)	1	1	1	1	1
Tennis Courts	51	51	51	51	50
Athletic Center	4	4	4	4	4
Community Centers	4	4	4	4	4
Theaters	3	3	3	3	3
Cultural Center/Art Center	1	1	1	1	1
Junior Museum and Zoo	1	1	1	1	1
Swimming Pools	1	1	1	1	1
Nature Center	3	3	3	3	3
Libraries					
Libraries	5	5	5	5	5
Public Works:					
Number of Trees Maintained	31,699	31,712	31,849	31,815	31,819
Electric Utility					
Miles of Overhead Lines	222	223	222	220	220
Miles of Underground Lines	268	264	272	274	279
Water Utility					
Miles of Water Mains	235	236	236	236	236
Gas Utility					
Miles of Gas Mains	209	210	210	210	210
Waste Water					
Miles of Sanitary Sewer Lines	216	216	216	216	216

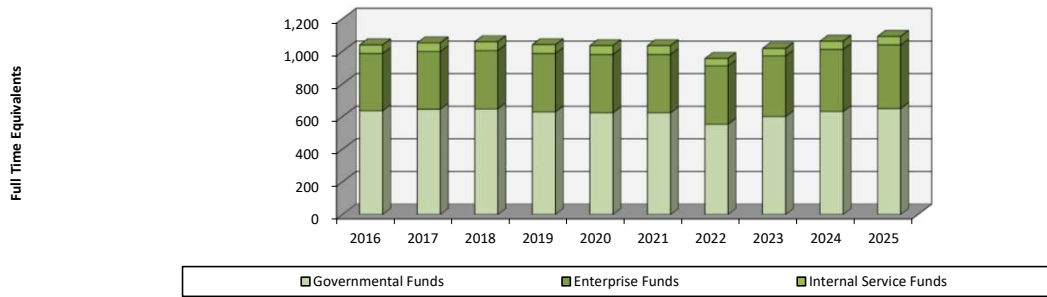
Note: ¹Beginning in FY16 park acreage is sourced from the Official City Data Set. The discrepancy between FY16 and FY17 is because FY16 numbers were derived off GIS parcels identified as parks or zoned in the Open Space Zoning District. For FY17, Council approved Parks Master Plan numbers were used. In FY22 the number was rounded up from 174 to 175.

²Williams Park is excluded from the list as the City does not operate it as a park. Located near downtown and across from Heritage Park, the land is leased to a non-profit that operates it as the Museum of American Heritage. For FY25, Fred Eyerly Tower Well Park was dedicated in June 2025.

Source: City of Palo Alto, various departments

Fiscal Year Ended June 30				
2021	2022	2023	2024	2025
7	7	7	7	7
1	1	1	1	1
29	30	30	30	30
-		-	-	-
-		-	-	-
174	175	175	175	175
4,018	4,018	4,018	4,018	4,018
181	181	181	181	181
36	36	36	36	37
1	1	1	1	1
50	50	50	50	50
4	4	4	4	4
4	4	4	4	4
3	3	3	3	3
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
3	3	3	3	3
5	5	5	5	5
31,716	31,599	31,404	31,922	31,226
221	220	220	219	216
287	288	290	290	294
236	233	231	231	231
211	211	211	211	211
216	207	207	207	207

CITY OF PALO ALTO
Full-Time Equivalent City Government Employees by Function
Last Ten Fiscal Years



Full Time Equivalent Employees as of June 30

Governmental Funds

General Fund:

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Administration	86	87	89	87	86	85	76	82	87	90
Community Services	77	78	79	78	76	75	67	70	78	83
Development Services ⁴	38	36	36	36	-	-	-	-	-	-
Fire	107	109	109	98	98	98	90	100	102	113
Library	48	48	48	48	47	47	41	47	49	49
Office of Emergency Services	3	3	3	3	3	3	2	2	3	3
Planning and Community Environment ⁴	31	32	30	30	-	-	-	-	-	-
Planning and Development Services ⁴	-	-	-	-	62	62	54	65	71	68
Office of Transportation ⁵	-	-	-	-	6	6	5	5	6.5	8
Police	155	155	155	155	149	149	124	133	139	139
Public Works ¹	54	56	55	51	49	51	49	49	51	51
Subtotal General Fund	599	604	604	586	576	576	508	553	587	604

All Other Funds:

Capital Projects Fund	28	31	34	33	36	36	35	37	35	36
Special Revenue Fund	9	10	9	10	11	11	10	10	10	10
Total Governmental Funds	636	645	647	629	623	623	553	600	632	649

Enterprise Funds

Public Works ²	95	99	101	101	101	101	101	104	107	107
Utilities ³	256	255	257	257	257	257	257	268	274	284
Total Enterprise Funds	351	354	358	358	358	358	358	372	381	391

Internal Service Funds

Printing and Mailing	2	2	2	2	2	2	2	2	2	2
Technology	34	35	36	36	36	36	29	31	33	34
Vehicle Replacement	17	16	16	16	16	16	14	13	14	15
General Liabilities Insurance	-	-	-	-	-	-	-	-	1	1
Total Internal Service Funds	53	53	54	54	54	54	45	46	50	52

Total	1,040	1,052	1,059	1,041	1,035	1,035	956	1,018	1,063	1,092
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Notes: ¹Fleet and Facilities Management

²Refuse, Storm Drainage, Wastewater Treatment

³Electric, Fiber Optics, Gas, Wastewater Collection, Water Fund

⁴In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.

⁵In FY20, the City established the Office of Transportation. Staffing in prior years was included in the Development Services Department and Planning and Community Environment Department.

Numbers adjusted for rounding purposes.

Source: City of Palo Alto - Fiscal Year 2025 Adopted Operating Budget



CITY OF
**PALO
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285 Hamilton Ave, Suite 100
(650) 329-2550
ADA@paloalto.gov



CITY OF
**PALO
ALTO**

PALO ALTO

Spanish explorers named the area for the tall, twin-trunked redwood tree they camped beneath in 1769. Palo Alto incorporated in 1894 and the State of California granted its first charter in 1909. The City has long been known for its innovative people and its exploration of ideas that have changed the world. In Palo Alto, our history has always been about the future.

PALOALTO.GOV

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