PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 16, 2026

NEW ISSUE – BOOK-ENTRY-ONLY | **RATING: S&P: "AAA"**
(See "RATING" herein.)

In the opinion of Jones Hall LLP, San Mateo, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2026 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. Interest on the 2026 Bonds may be subject to the corporate alternative minimum tax. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

$14,500,000*
CITY OF PALO ALTO
Water Revenue Refunding Bonds, 2026 Series A

Dated: Date of Delivery | **Due: As shown on inside front cover**

The City of Palo Alto, a chartered city and municipal corporation (the "City"), is issuing its Water Revenue Refunding Bonds, 2026 Series A (the "2026 Bonds"), pursuant to an Indenture of Trust, dated as of October 1, 2026 (the "Indenture"), by and between the City and U.S. Bank Trust Company, National Association, as trustee (the "Trustee"), Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, and a resolution of the City Council, adopted on September 14, 2026, authorizing the issuance of the 2026 Bonds.

The 2026 Bonds are being issued to (i) refund and defease all of the outstanding City of Palo Alto Water Revenue Bonds, 2009 Series A (the "Prior Bonds") and (ii) pay the costs of issuing the 2026 Bonds. See "REFUNDING PLAN."

The 2026 Bonds are special obligations of the City and are secured by, subject to certain restrictions set forth in the Indenture, a pledge of and lien on certain net revenues (the "Net Revenues") generated by the existing water system of the City (the "Water System"), which is operated by the City through the City's Utilities Department (the "Utilities Department"). See "SECURITY FOR THE 2026 BONDS" herein.

The 2026 Bonds will be issued in fully registered form only and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the 2026 Bonds. Beneficial ownership interests in the 2026 Bonds may be purchased in book-entry form only. Payments of principal and interest (and premium, if any) will be paid by the Trustee to DTC for subsequent disbursements to DTC Participants who will remit such payments to the beneficial owners of the 2026 Bonds. See "DESCRIPTION OF THE 2026 BONDS—Book-Entry-Only System" herein. The 2026 Bonds will be issued as fully registered bonds in denominations of $5,000 or any integral multiple of $5,000. Interest is payable on each June 1 and December 1, commencing December 1, 2026.

The 2026 Bonds are subject to mandatory redemption as described herein. See "DESCRIPTION OF THE 2026 BONDS—Redemption Provisions."

Additional indebtedness payable from Net Revenues may be issued on a parity with the 2026 Bonds, subject to the conditions contained in the Indenture. See "SECURITY FOR THE 2026 BONDS—Parity and Subordinate Debt" herein.

NONE OF THE PROPERTIES OF THE WATER SYSTEM ARE SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE 2026 BONDS AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OR AGENCY OF THE STATE OF CALIFORNIA IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2026 BONDS. NEITHER THE 2026 BONDS NOR THE OBLIGATION TO PAY THE PRINCIPAL OF OR INTEREST THEREON CONSTITUTES A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMIT ON INDEBTEDNESS.

This cover page is not intended to be a summary of the terms of, or the security for, the 2026 Bonds. Investors are advised to read this Official Statement in its entirety to obtain information essential to the making of an informed investment decision, giving particular attention to the matters discussed under "CERTAIN INVESTMENT CONSIDERATIONS" herein. Capitalized terms used on this cover page and not otherwise defined have the meanings set forth herein.

The 2026 Bonds are offered, when, as and if issued by the City, subject to the approval of validity by Jones Hall LLP, Bond Counsel to the City, and to certain other conditions. Certain legal matters will be passed upon for the City by the Office of the City Attorney of the City. Certain legal matters will be passed upon for the City by Stradling Yocca Carlson & Rauth LLP, as Disclosure Counsel. It is expected that the 2026 Bonds in book-entry form will be available for delivery through the facilities of DTC on or about ______, 2026.

Date of Official Statement: _______, 2026

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* Preliminary, subject to change.

MATURITY SCHEDULE

$14,500,000*
City of Palo Alto
Water Revenue Refunding Bonds,
2026 Series A

Maturity Date (June 1)	*Principal Amount*	*Interest Rate*	*Yield*	*Price*	*CUSIP Numbers†*
2027	1,205,000				
2028	1,285,000				
2029	1,375,000				
2030	1,480,000				
2031	1,585,000				
2032	1,695,000				
2033	1,820,000				
2034	1,955,000				
2035	2,100,000				

$_______ – ______% Term Bonds due June 1, 20__; Yield: ____%; Price ____; CUSIP No.†: _______

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* Preliminary, subject to change.

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CITY OF PALO ALTO

CITY COUNCIL MEMBERS

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

CITY STAFF

Ed Shikada, *City Manager*
Kiely Nose, *Assistant City Manager*
Lauren Lai, *Director of Administrative Services*
Christine Paras, *Assistant Director of Administrative Services*
Jessie Deschamps, *Senior Management Analyst*
Christopher Jensen, *City Attorney*
Aylin Bilir, *Assistant City Attorney*
Mahealani Ah Yun, *City Clerk*

Utilities Department

Alan Kurotori, *Director of Utilities*
Lisa Bilir, *Assistant Director of Utilities, Resource Management Utilities*

PROFESSIONAL SERVICES

Jones Hall LLP
Bond Counsel

Stradling Yocca Carlson & Rauth LLP
Disclosure Counsel

PFM Financial Advisors LLC
Municipal Advisor

U.S. Bank Trust Company, National Association
Trustee

Causey Public Finance, LLC
Verification Agent

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations with respect to the offer or sale of the 2026 Bonds other than as set forth in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the 2026 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2026 Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The information set forth in this Official Statement has been obtained from official sources and other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of the City. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the affairs of the City or the Utilities Department since the date hereof. This Official Statement is submitted in connection with the sale of the 2026 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the City's or the Utilities Department's forecasts in any way, regardless of the level of optimism communicated in the information. The City is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. See "CONTINUING DISCLOSURE."

The Underwriter may offer and sell the 2026 Bonds to certain dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

The 2026 Bonds have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon an exemption from the registration requirements contained in the Securities Act. The 2026 Bonds have not been registered or qualified under the securities laws of any state.

The City and the Utilities Department maintain websites and certain social media accounts. However, the information presented on such websites and such accounts is not a part of this Official Statement and should not be relied on in making an investment decision with respect to the 2026 Bonds.

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OFFICIAL STATEMENT

$14,500,000[*]
City of Palo Alto
Water Revenue Refunding Bonds,
2026 Series A

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth certain information in connection with the sale by the City of Palo Alto (the "City") of its $14,500,000[*] Water Revenue Refunding Bonds, 2026 Series A (the "2026 Bonds").

Certain capitalized terms used in this Official Statement and not otherwise defined have the meanings set forth under APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE OF TRUST." All references to and summaries of provisions of the Indenture are qualified in their entirety by reference to the full Indenture, copies of which are available for inspection at the offices of the City.

The City

The City is located in northern Santa Clara County (the "County"), approximately 35 miles south of the City of San Francisco. The City has a population of approximately 69,004 as of January 1, 2026. It is part of the San Francisco Bay metropolitan area. Partly due to the presence of Stanford University, which is adjacent to the City, the City is considered the birthplace of the high technology industry that has made the County famous worldwide as Silicon Valley. The City was incorporated in 1894. Its first Charter was granted by the State of California in 1909, and the City continues to operate as a charter city. Municipal operations are conducted under the Council-Manager form of government. The seven City Council Members are elected at large for four-year, staggered terms. For more information regarding the City, see "THE CITY AND CITY UTILITIES" and APPENDIX B—"DEMOGRAPHIC AND ECONOMIC INFORMATION ABOUT THE CITY."

Authority for Issuance

The 2026 Bonds are being issued pursuant to (a) Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, all as in effect on the Closing Date (the "Refunding Law"), (b) the terms and conditions of an Indenture of Trust, dated as of October 1, 2026 (the "Indenture"), by and between the City and U.S. Bank Trust Company, National Association, as trustee (the "Trustee"), and (c) a resolution of the City Council, adopted on September 14, 2026, authorizing the issuance of the 2026 Bonds.

Purpose of 2026 Bonds

The 2026 Bonds are being issued to (i) refund and defease all of the City's outstanding City of Palo Alto Water Revenue Bonds, 2009 Series A (the "Prior Bonds") and (ii) pay the costs of issuing the 2026 Bonds. See "REFUNDING PLAN."

Security for the 2026 Bonds

Pledge of Net Revenues. The 2026 Bonds are special obligations of the City and are secured by, subject to certain restrictions set forth in the Indenture, a pledge of and lien on the Net Revenues generated by the Water System. See "SECURITY FOR THE 2026 BONDS—Pledge of Net Revenues." None of the properties of the Water System are subject to any mortgage or other lien for the benefit of the owners of the 2026 Bonds and

[*] Preliminary, subject to change.

neither the full faith and credit nor the taxing power of the City, the State or any political subdivision or agency of the State is pledged to the payment of the principal of or interest on the 2026 Bonds. Neither the 2026 Bonds nor the obligation to pay principal of or interest thereon constitutes a debt of the City, the State or any of its political subdivisions within the meaning of any Constitutional limitation on indebtedness. See "SECURITY FOR THE 2026 BONDS."

Parity and Subordinate Debt. Additional bonds and other indebtedness payable from Net Revenues may be issued on a parity with the 2026 Bonds subject to the conditions of the Indenture ("Parity Debt"). Nothing in the Indenture prohibits the City from incurring obligations secured by Net Revenues on a basis subordinate to the 2026 Bonds. See "SECURITY FOR THE 2026 BONDS—Parity and Subordinate Debt."

No Reserve Fund

The City will not establish or maintain a debt service reserve fund for the 2026 Bonds. See "SECURITY FOR THE 2026 BONDS."

The Water System

The "Water System" includes the existing water system of the City, comprising all facilities for the obtaining, conserving, treating, distributing, storing and supplying of water for domestic use, irrigation, sanitation, industrial use, fire protection, recreation, or any other public or private uses. The Water System does not include any facilities, properties or improvements constituting any portion of the City's gas system (the "Gas System"), the City's storm and surface water drainage system (the "Storm Drain System"), the City's sanitary sewer system (the "Sewer System"), the City's electric utility (the "Electric System"), the City's fiber optics system (the "Fiber Optics System"), or the City's refuse utility (the "Refuse System"). For more information on the Water System, see "THE WATER SYSTEM" herein.

Continuing Disclosure

In connection with the issuance of the 2026 Bonds, the City Council will agree to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access system ("EMMA"), for purposes of Rule 15c2-12(b)(5) ("Rule 15c2-12") adopted by the U.S. Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as amended, certain annual financial information and operating data relating to the City and the Water System, and notice of certain enumerated events. These covenants will be made in order to assist the Underwriter (as defined herein) in complying with Rule 15c2-12. See "CONTINUING DISCLOSURE" and "APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Forward-Looking Statements

This Official Statement contains statements relating to future results that are forward-looking statements. When used in this Official Statement, the words "estimate," "anticipate," "forecast," "project," "intend," "propose," "plan," "expect" and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Additional Information

Brief descriptions of the 2026 Bonds, the Indenture and certain other documents are included in this Official Statement and the appendices hereto. Such descriptions do not purport to be comprehensive or definitive. All references herein to such documents and any other documents, statutes, laws, reports or other instruments described herein are qualified in their entirety by reference to each such document, statute, law, report or other instrument. Information contained herein has been obtained from officers, employees and records of the City, the Utilities Department and from other sources believed to be reliable. The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the affairs of the City, the Utilities Department or the Water System since the date hereof. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or owners of any of the 2026 Bonds. The City and the Utilities Department maintain certain websites and social media accounts, the information on which is not part of this Official Statement, has not and is not incorporated by reference herein, and should not be relied upon in deciding whether to invest in the 2026 Bonds.

REFUNDING PLAN

The proceeds of the 2026 Bonds will be used to (i) refund and defease the Prior Bonds and (ii) pay the costs of issuing the 2026 Bonds.

Refunding of Prior Bonds*

The Prior Bonds were issued pursuant to an Indenture of Trust, dated as of October 1, 2009 (the "2009 Indenture"), by and between the City and U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank National Association, as trustee (the "2009 Trustee"). A portion of the proceeds of the 2026 Bonds will be used to refund and defease the Prior Bonds. All of the Prior Bonds will be redeemed on October 23, 2026 (the "Redemption Date"), at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption (the "Redemption Price"). Certain information with respect to the Prior Bonds is set forth in the table below.

City of Palo Alto
Water Revenue Bonds,
2009 Series A
(Taxable Direct Payment Build America Bonds)

Maturity Date (September 1)	***Principal Amount***	***Interest Rate***	***CUSIP Numbers****
2027	$1,555,000	4.700%	697388 AK2
2030	5,170,000	5.650	697388 AL0
2035	10,815,000	5.950	697388 AM8

* CUSIP® numbers are provided for convenience of reference only. None of the City, the Utilities Department, the Underwriter or their agents or counsel assumes responsibility for the accuracy of such numbers.

Pursuant to Irrevocable Refunding Instructions to be given by the City to the 2009 Trustee (the "Instructions"), concurrently with delivery of the 2026 Bonds, the City will cause a portion of the proceeds of 2026 Bonds to be transferred to the 2009 Trustee, which amount the 2009 Trustee will then deposit in the Debt Service Fund maintained under the 2009 Indenture (the "2009 Debt Service Fund"). The 2009 Trustee will apply amounts deposited to the 2009 Debt Service Fund, along with other available moneys under the 2009 Indenture, to pay the Redemption Price of the Prior Bonds on the Redemption Date. Amounts in the 2009 Debt Service Fund are pledged to secure payment of the Prior Bonds and are not pledged to, or available for, payment of the 2026 Bonds.

* Preliminary, subject to change.

Verification

Prior to the delivery of the 2026 Bonds, Causey Public Finance, LLC (the "Verification Agent"), will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to them by the Underwriter relating to the adequacy of the moneys on deposit with the 2009 Trustee to pay the Redemption Price of the Prior Bonds on the Redemption Date.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the 2026 Bonds will be used for the following purposes:

Sources of Funds
Principal Amount of 2026 Bonds
[Plus/Less]: Original Issue [Premium/Discount]
Plus Funds on Hand(1)
Total Sources

Uses of Funds
Redemption of Prior Bonds
Costs of Issuance(2)
Total Uses

(1) Moneys on deposit in the debt service reserve fund maintained for the Prior Bonds.
(2) Includes Underwriter's discount, fees of Trustee, Municipal Advisor, Bond Counsel, Disclosure Counsel, and Verification Agent, printing expenses and miscellaneous fees and expenses.

DESCRIPTION OF THE 2026 BONDS

Bond Terms

General. The 2026 Bonds will be issued in the original principal amount of $14,500,000*. The 2026 Bonds will be dated their date of delivery and are to be issued in the aggregate principal amount, bear interest at the rate per annum and mature on the dates set forth on the inside front cover page of this Official Statement. Interest on the 2026 Bonds is payable on each June 1 and December 1, commencing December 1, 2026 (each, an "Interest Payment Date").

Registered Form. The 2026 Bonds are deliverable in fully registered form in the denomination of $5,000 each or any integral multiple of $5,000, and when issued will be registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"). Beneficial owners of the 2026 Bonds will not receive physical certificates representing the 2026 Bonds purchased, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered holder of the 2026 Bonds, principal of and premium, if any, and interest evidenced and represented by the 2026 Bonds will be paid the Trustee directly to DTC, which will in turn remit such principal, premium, if any, and interest to its participants for subsequent disbursement to the beneficial owners of the 2026 Bonds. See "DESCRIPTION OF THE 2026 BONDS—Book-Entry-Only System." Principal of and premium, if any, on the 2026 Bonds will be payable at maturity or prepayment upon surrender thereof at the principal corporate trust office of the Trustee.

Manner of Payment. Interest on the 2026 Bonds is payable on each Interest Payment Date to the person whose name appears on the Bond Registration Books as of the Record Date immediately preceding the applicable Interest Payment Date, such interest to be paid by check or draft of the Trustee mailed by first class mail to the Owner or, at the option of any Owner of at least $1,000,000 aggregate principal amount of the 2026 Bonds with respect to which written instructions have been filed with the Trustee prior to the Record Date, by wire transfer,

* Preliminary, subject to change.

at the address of the owner as it appears on the Bond Registration Books. Principal of and premium (if any) on any 2026 Bond will be paid upon presentation and surrender thereof at the corporate trust office of the Trustee. Both the principal of and interest and premium (if any) on the 2026 Bonds will be payable in lawful money of the United States of America.

So long as Cede & Co., is the registered holder of the 2026 Bonds, references to the holders or owners or registered holders or owners of the 2026 Bonds means Cede & Co. and not the beneficial owners of the 2026 Bonds.

Transfer and Exchange

Any 2026 Bond may, in accordance with its terms, be transferred upon the Bond Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of the 2026 Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed. Whenever any 2026 Bond is so surrendered for transfer, the City will execute and the Trustee will authenticate and deliver to the transferee a new 2026 Bond or 2026 Bonds of like tenor, maturity and aggregate principal amount. If a notice of redemption of any 2026 Bonds has been mailed pursuant to the redemption provisions of the Indenture, those 2026 Bonds will not be subject to transfer.

The 2026 Bonds may be exchanged at the Trust Office of the Trustee, for 2026 Bonds of the same tenor and maturity and of other authorized denominations.

2026 Bonds Mutilated, Destroyed, Stolen or Lost

If any 2026 Bond becomes mutilated, the City, at the expense of the Owner of that 2026 Bond, will execute, and the Trustee will authenticate and deliver, a new 2026 Bond of like maturity and principal amount in exchange and substitution for the 2026 Bonds so mutilated, but only upon surrender to the Trustee of the 2026 Bond so mutilated. The Trustee will cancel every mutilated 2026 Bond so surrendered, and will deliver those canceled 2026 Bonds to, or upon the order of, the City.

If any 2026 Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and the Trustee. If such evidence is satisfactory to them, and indemnity satisfactory to them is given, the City, at the expense of the Owner, will execute, and the Trustee will authenticate and deliver, a new 2026 Bond of like maturity and principal amount in lieu of and in substitution for the 2026 Bond so lost, destroyed or stolen. (If any such 2026 Bond matures or is called for redemption, instead of issuing a substitute 2026 Bond the Trustee may pay the same without surrender thereof upon receipt of indemnity satisfactory to the Trustee).

The City may require payment of a reasonable fee for each new 2026 Bond issued and the reimbursement of any expenses incurred by the City or the Trustee. Any 2026 Bond issued in lieu of any 2026 Bond alleged to be lost, destroyed or stolen will constitute an original contractual obligation on the part of the City whether or not the 2026 Bond alleged to be lost, destroyed or stolen is at any time enforceable by anyone, and will be equally and proportionately entitled to the benefits of the Indenture with all other 2026 Bonds secured by the Indenture.

Redemption Provisions*

No Optional Redemption. The 2026 Bonds are not subject to optional redemption prior to their stated maturity date.

Mandatory Sinking Fund Redemption. The 2026 Bonds maturing on June 1, 20__ are subject to mandatory redemption in part from sinking fund payments to be made by the City on June 1, 20__, and on each

* *Preliminary, subject to change.*

June 1 thereafter up to and including June 1, 20__, at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date without premium, as follows:

2026 Bonds Maturing June 1, 20__

June 1 of the Year	***Principal Amount***

* Final Maturity Date.

Special Mandatory Redemption from Insurance or Condemnation Proceeds. The 2026 Bonds are subject to redemption as a whole or in part on any date, in inverse order of maturity and by lot within a maturity, to the extent of the Net Proceeds of hazard insurance not used to repair or rebuild the Water System or the Net Proceeds of condemnation awards received with respect to the Water System to be used for such purpose, at a Redemption Price equal to the principal amount of the 2026 Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

Notice of Redemption. Unless waived by any Owner of 2026 Bonds to be redeemed, notice of any redemption of Bonds will be given, at the expense of the City, by the Trustee by mailing a copy of a redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Owner of the 2026 Bond or 2026 Bonds to be redeemed at the address shown on the Bond Registration Books; provided, that neither the failure to receive such notice nor any immaterial defect in any notice will affect the sufficiency of the proceedings for the redemption of the 2026 Bonds.

All notices of redemption must be dated and state the following: (i) the redemption date, (ii) the Redemption Price, (iii) if fewer than all Outstanding 2026 Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the 2026 Bonds to be redeemed, (iv) that on the redemption date the Redemption Price will become due and payable with respect to each such 2026 Bond or portion thereof called for redemption, and that interest with respect thereto will cease to accrue from and after the redemption date, and (v) the place or places where such 2026 Bonds are to be surrendered for payment of the Redemption Price, which places of payment may include the corporate trust office of the Trustee. On or prior to any redemption date, the City must deposit with the Trustee an amount of money sufficient to pay the Redemption Price of all the 2026 Bonds or portions of 2026 Bonds which are to be redeemed on that date.

So long as the 2026 Bonds are held only in the book-entry system of DTC, notice of redemption will be sent to Cede & Co., as nominee for DTC, and will not be sent to the beneficial owners of the 2026 Bonds.

Purchase in Lieu of Redemption. In lieu of mandatory redemption as described under "—*Mandatory Sinking Fund Redemption*" above, amounts in the Redemption Account of the Debt Service Fund may be used for the purchase of 2026 Bonds at public or private sale as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Debt Service Fund) as the City may determine, but not to exceed the principal amount of such 2026 Bonds.

Book-Entry-Only System

While the 2026 Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to a 2026 Bond will be paid by the Trustee to The Depository Trust Company ("DTC"), which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to

Beneficial Owners of the 2026 Bonds, as described in APPENDIX E—"DTC AND THE BOOK-ENTRY-ONLY SYSTEM."

SECURITY FOR THE 2026 BONDS

Pledge of Net Revenues

General. The 2026 Bonds are special obligations of the City payable solely from and secured by a pledge of Net Revenues in accordance with the Indenture.

"*Net Revenues*" are defined in the Indenture to mean, with respect to the Water System, for any period of computation, the amount of the Gross Revenues received from the Water System during such period, less the amount of Maintenance and Operation Costs of the Water System becoming payable during that period.

"*Gross Revenues*" are defined in the Indenture to mean for any period of computation, all gross charges received for, and all other gross income and revenues derived by the City from, the ownership or operation of the Water System or otherwise arising from the Water System during that period, including but not limited to (a) all Charges received by the City for use of the Water System, (b) all receipts derived from the investment of funds held by the City or the Trustee under the Indenture, (c) transfers from any Rate Stabilization Fund into the Water Revenue Fund, and (d) all moneys received by the City from other public entities whose inhabitants are served pursuant to contracts with the City. Gross Revenues for a period of computation shall not include amounts deposited into the Rate Stabilization Fund during such period of computation, but only to the extent such deposits are made from amounts that would otherwise constitute Gross Revenues that were received by the City during such period of computation.

"*Maintenance and Operation Costs*" are defined in the Indenture to mean the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Water System, calculated in accordance with sound accounting principles. Maintenance and Operation Costs include the cost of supply of water, gas and electric energy under contracts or otherwise, the funding of reasonable operating reserves, and all reasonable and necessary expenses of management and repair and other expenses to maintain and preserve the Water System in good repair and working order. Maintenance and Operation Costs further include all reasonable and necessary administrative costs of the City attributable to the Water System and the 2026 Bonds, such as salaries and wages and the necessary contribution to retirement of employees, overhead, insurance, taxes (if any), expenses, compensation and indemnification of the Trustee, and fees of auditors, accountants, attorneys or engineers, and all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Indenture or any Parity Debt Instrument. Maintenance and Operation Costs do not include depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

"*Charges*" is defined in the Indenture to mean fees, tolls, assessments, rates and rentals prescribed by the City Council for the services and facilities of the Water System furnished by the City.

Flow of Funds

The City covenants and agrees in the Indenture that all Gross Revenues will be received and held by the City in trust and will be deposited by the City in the Water Revenue Fund which exists in the City Treasury. The Gross Revenues will be accounted for separately and apart from all other money, funds, accounts or other resources of the City.

The Indenture provides that all Gross Revenues in the Water Revenue Fund will be applied, transferred, used and withdrawn in the order listed:

(i) *Operating Costs.* The City will first apply Gross Revenues on deposit in the Water Revenue Fund to the payment of the budgeted Maintenance and Operation Costs when due and payable.

(ii) *Debt Service*. On or before the third day other than a Saturday, Sunday or a day on which the Trustee is authorized by law to remain closed ("Business Day") prior to each Interest Payment Date, the City will transfer from the Water Revenue Fund to the Trustee for deposit in the Debt Service Fund (created as a special fund for the 2026 Bonds under the Indenture) (i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding 2026 Bonds on the next succeeding Interest Payment Date, plus (ii) beginning on the third Business Day prior to the initial Sinking Fund Installment set forth in the Indenture, an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding 2026 Bonds on the next succeeding date on which Principal Installments are required to be made pursuant to the Indenture ("Principal Installment Date"). All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund will be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Installment Date upon all Outstanding 2026 Bonds.

Following the issuance of Parity Debt, if any, moneys will be transferred from the Water Revenue Fund to the Debt Service Fund and the debt service fund for any Parity Debt without preference or priority and, in the event of any insufficiency of such moneys, will be transferred on a pro rata basis based on the amount due on the 2026 Bonds and any Parity Debt on such Interest Payment Date and without regard to moneys available in a debt service reserve account.

(iii) *Debt Service Reserve Accounts*. After making the payments, allocations and transfers provided for in subsection (ii) above, if the balance in a debt service reserve account for any Parity Debt is less than the required level, the deficiency will be restored by transfers from the first amounts which become available in the Water Revenue Fund. In the event of any insufficiency of such amounts, amounts will be transferred on a pro rata basis to the debt service reserve accounts for any Parity Debt based on the amount required to be deposited into the debt service reserve account.

(iv) *Surplus*. As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner set forth above, any amounts remaining in the Water Revenue Fund may at any time be treated as surplus and may be applied by the City in accordance with applicable laws.

Rate Stabilization Fund

The Indenture permits but does not require the City to establish and maintain a Rate Stabilization Fund, to be held by the City and administered in accordance with the Indenture, for the purpose of stabilizing the rates and charges imposed by the City with respect to the Water System. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the 2026 Bonds and any Parity Debt, as the City may determine. The City may, but is not required to, withdraw from any amounts on deposit in a Rate Stabilization Fund and deposit such amounts in the Water Revenue Fund in any Fiscal Year for the purpose of paying principal and interest coming due and payable in such Fiscal Year. Amounts so transferred from a Rate Stabilization Fund to the Water Revenue Fund will be applied for the purposes of the Water Revenue Fund. Amounts on deposit in a Rate Stabilization Fund will not be pledged to or otherwise secure the 2026 Bonds or any Parity Debt. The City has the right at any time to withdraw any or all amounts on deposit in a Rate Stabilization Fund and apply such amounts for any lawful purposes of the City.

The Rate Stabilization Fund, if established by the City, would be a separate and distinct fund from the City's Rate Stabilization Reserve (the "RSR"). (See the caption "THE WATER SYSTEM—Reserves for the

Water System" for information regarding the City's Water System reserve funds.) At this time, the City has not established a Rate Stabilization Fund.

Rate Covenant

The City has covenanted in the Indenture to fix and prescribe, at the commencement of each Fiscal Year, Charges for the Water System which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues (including amounts transferred from the Rate Stabilization Fund to the Water Revenue Fund during such Fiscal Year) equal to one hundred twenty-five percent (125%) of Debt Service on the 2026 Bonds and all Parity Debt payable in such Fiscal Year.

The City may make adjustments from time to time in such rates and charges and may make such classification of such rates and charges as it deems necessary, but the City will not reduce the rates and charges then in effect unless the Net Revenues, from such reduced rates and charges are reasonably expected to be sufficient to meet the requirements of the Indenture.

As long as the City has complied with its obligations set forth in above, the failure of Net Revenues to equal one hundred twenty-five percent (125%) of Debt Service at the end of a Fiscal Year will not constitute a default or an Event of Default under the Indenture.

Parity and Subordinate Debt

In addition to the 2026 Bonds, the City may issue or incur Parity Debt pursuant to a Parity Debt Instrument subject to the following conditions precedent:

(a) The City must be in compliance with all covenants set forth in the Indenture.

(b) The Net Revenues for the last audited Fiscal Year of the City, or for any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of adoption by the City Council of the resolution authorizing the issuance of such Parity Debt or the date of the execution of such Parity Debt (the "Test Year"), must produce a sum equal to at least 125% of the Debt Service on the 2026 Bonds and outstanding Parity Debt for such Test Year.

(c) The Net Revenues for the Test Year, including adjustments to give effect as of the first day of such Test Year to increases or decreases in Charges for the service provided by the Water System approved and in effect as of the date of calculation, must produce a sum equal to at least 125% of: (i) the Debt Service on the 2026 Bonds and any Parity Debt outstanding in such Test Year; plus (ii) the Debt Service which would have accrued on any Parity Debt issued since the end of such Test Year, assuming that such Parity Debt had been executed or issued at the beginning of such Test Year; plus (iii) the Debt Service which would have accrued had such proposed additional Parity Debt been issued at the beginning of such Test Year.

Notwithstanding the foregoing, Parity Debt issued to refund the 2026 Bonds or any outstanding Parity Debt may be delivered without satisfying the conditions set forth above if total Debt Service on the 2026 Bonds or any outstanding Parity Debt after the issuance of such refunding Parity Debt is not greater than total Debt Service would have been prior to the issuance of such refunding Parity Debt.

(d) The Parity Debt Instrument providing for the issuance of such Parity Debt must provide that the proceeds of such Parity Debt will be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, improvements or extensions of existing facilities within the Water System, or otherwise for facilities, improvements or property which the City determines are of benefit to the Water System, or for the purpose of refunding any Bonds or Parity Debt in whole or in part, including all costs (including costs of issuing such Parity Debt and including capitalized interest on such Parity Debt during any period which the City deems necessary or advisable) relating thereto.

See "APPENDIX C - Summary of Certain Provisions of the Indenture of Trust" for the definition of Debt Service.

Subordinate Debt. The Indenture authorizes the City to issue Bonds or other obligations secured by Net Revenues of the Water System on a basis subordinate to the pledge of Net Revenues to the 2026 Bonds, upon such terms and in such principal amounts as the City may determine.

DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service funding requirements for the 2026 Bonds, assuming no redemptions prior to maturity.

Year Ended June 1	***Principal****	***Interest***	***Total***
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
Total			

* Includes mandatory sinking fund installments.

THE CITY AND CITY UTILITIES

The City

The City is located in northern Santa Clara County (the "County"), approximately 35 miles south of the City of San Francisco. The City has a current population of approximately 69,004. It is part of the San Francisco Bay metropolitan area. Partly due to the presence of Stanford University, which is adjacent to the City, the City is considered the birthplace of the high technology industry that has made the County famous worldwide as Silicon Valley. The 700-acre Stanford Research Park includes prestigious and innovative high-tech leaders such as Hewlett-Packard, Rivian, Tesla, Google and the Electric Power Research Institute. The City is also a major employment center, that includes Stanford University, Stanford Hospital and Clinic, Hewlett Packard, U.S. Department of Veterans Administration Hospital, Broadcom, Simon Property Group, Stanford Shopping Center, and the law offices of Wilson Sonsini Goodrich and Rosati.

The City was incorporated in 1894. Its first Charter was granted by the State of California in 1909, and the City continues to operate as a charter city. Municipal operations are conducted under the Council-Manager form of government. The seven City Council Members are elected at large for four-year, staggered terms. The Mayor and Vice Mayor are elected annually at the first City Council meeting in January. The Mayor presides over all City Council meetings. The City Manager is responsible for the operation of all municipal functions, except the offices of the City Attorney, City Clerk, and City Auditor. These officials are appointed by, and report directly to, the City Council. For general, economic and demographic information regarding the City, see APPENDIX B—GENERAL AND ECONOMIC INFORMATION ABOUT THE CITY.

City Utilities

The City operates the following utility systems:

- the Water System,
- the Sewer System and the Regional Water Quality Control Plant,
- the Electric System,
- the Gas System,
- the Storm Drain System,
- the Refuse System, and
- the Fiber Optics System.

The City's Utilities Department is in charge of the operation of the Electric System, the Fiber Optics System, the Gas System, the Water System and the Wastewater Collection System (which comprises a portion of the Sewer System) and the City's Public Works Department is in charge of the operation of the Storm Drain System, the Refuse System and the Wastewater Treatment System (which comprises the remaining portion of the Sewer System).

As described more completely above (see "SECURITY FOR THE 2026 BONDS"), the 2026 Bonds will be secured by a pledge of, and lien on, the Net Revenues of the Water System. The 2026 Bonds are not secured by revenues of any other City utility.

Management of the Utilities Department

The Utilities Department is responsible for the operation of five utility systems (the Electric System, the commercial Fiber Optics System, the Gas System, the Water System and the Wastewater Collection System) that serve the City. The City, through its Utilities Department, services customer accounts for all of the City's utilities (including the Storm Drain System and the Refuse System).

The Utilities Department is currently staffed by the following individuals, among others:

Alan Kurotori, Director of Utilities. Alan Kurotori was selected as Utilities Director for the City in May 2025, bringing over 30 years of executive leadership experience in municipal utilities and city government. Prior to his appointment, he served as the City's Utilities Chief Operating Officer, where he advanced key strategic initiatives, including the Foothill Fire Mitigation Project electrical undergrounding and the development of a new 115kV transmission line serving the City. Before joining the City, Mr. Kurotori held several senior leadership roles with the City of Santa Clara, including Water & Sewer Utilities Director, Assistant City Manager during the construction of Levi's Stadium, and Assistant Director of Electric Utility (Silicon Valley Power). He has also held executive positions with Valley Water and the City of Mountain View, as well as private sector experience as an engineering consultant in water supply, wastewater, recycled water, and public works. Mr. Kurotori currently serves on the Board of Governors of the California Municipal Utilities Association and is a registered professional civil engineer in California. He holds a bachelor's degree in civil engineering from the University of California, Berkeley.

Terry Crowley, Chief Operating Officer. Terry Crowley is the Utilities Chief Operating Officer. Prior to his current position, Mr. Crowley served for 14 years as the Utilities Director for the City of Healdsburg, where he oversaw the electric, water, and wastewater utilities. He previously held engineering and operational roles with the City of Redding and Pacific Gas and Electric Company. Mr. Crowley holds a Bachelor of Science degree in Electrical Engineering from Washington State University and is a licensed Professional Electrical Engineer in the State of California.

Tom Auzenne, Assistant Director of Utilities, Customer Support Services. Tom Auzenne is the Assistant Director of Utilities for Customer Support Services for the City. He has served in this role for more than 20 years, overseeing customer service, credit, and collections. Prior to joining the City, Mr. Auzenne held management, supervisory, and field positions at Pacific Gas and Electric Company in program marketing, energy efficiency, customer service, quality control, governmental affairs, pipeline operations, and communications. Mr. Auzenne holds a Bachelor of Arts in Sociology from San Francisco State University.

Rekha Ippagunta, Assistant Director of Utilities, Water, Gas, and Wastewater Engineering and Operations. Rekha Ippagunta serves as the Utilities Assistant Director of Engineering and Operations for Water, Gas, and Wastewater for the City. Ms. Ippagunta has more than 20 years of experience in the utility sector, spanning municipal, public and investor-owned utilities, and private consulting. She held leadership roles at the Alameda County Water District, where she was responsible for development and execution of a $1.7 billion capital improvement plan. Previously, at California Water Service Company, she was responsible for capital program planning and delivery including managing and delivering capital projects across 23 water districts, notably completing high-priority water infrastructure projects and innovative treatment plant installations. She also worked as an engineering consultant and contributed to the design of water and wastewater infrastructure. Ms. Ippagunta holds a Bachelor of Science degree in Civil Engineering and a Master of Science in Civil and Environmental Engineering from S.V. University, India. She is a registered Civil Engineer and a member of American Water Works Association.

*Lisa Bilir***,** *Assistant Director of Utilities, Resource Management*. Lisa Bilir serves as the Assistant Director of Utilities of Resource Management for the City. Since joining the City in 2017, Ms. Bilir has overseen water supply planning and led financial forecasting and rate development across the electric, gas, water, and wastewater utilities. Her background includes 13 years of leadership in utility resource management and ratepayer advocacy at the California Public Utilities Commission. Ms. Bilir holds a Bachelor of Science degree in Biology from Stanford University and Master of Public Policy degree from the University of California, Berkeley.

Enterprise Staffing and Technology

The City employs approximately 44 full-time equivalent employees to operate its water utility. Thirty four employees are represented by Service Employees International Union ("SEIU") in all matters pertaining to wages, benefits and working conditions. The current two-year agreement with this union, which is in the form of a memorandum of understanding, expires on December 31, 2027. Management employees receive substantially the same fringe benefit package as the SEIU members, and are represented by the Utilities Management and Professional Association of Palo Alto ("UMPAPA"). UMPAPA was originally established in 2009 and currently represents approximately 10 management employees. Their current two-and-a-half-year contract is set to expire June 30, 2028. The City's wage and fringe benefits are generally comparable to those offered by other local public agencies.

The City covers substantially all of its permanent employees under the California Public Employees Retirement System ("CalPERS"). Pension costs are funded by monthly contributions to CalPERS. Employees of the Department of Utilities participate in the Miscellaneous Plan, which is part of the Public Agency portions of CalPERS. In addition to providing pension benefits, the City participates in the California Public Employees Medical and Health Care Act to provide certain health care benefits for retired employees ("OPEB"), including employees of the Department of Utilities. Employees who retire directly from the City are eligible for benefits if they retire on or after age 50 with 5 years of service and are receiving a monthly pension from CalPERS. In fiscal year 2007-08, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("OPEB"), and elected to participate in an irrevocable trust to provide a funding mechanism for its OPEB liability. As a result, the City maintains a Net OPEB Asset for funds placed in irrevocable trust in excess of its actuarially required contribution. See "WATER SYSTEM FINANCIAL INFORMATION – Other Post-Employment Benefits" below.

Enterprise Management Policy

Treated as enterprise funds, the Electric, Gas, Refuse, Water, Fiber Optics, Sewer and Storm Drain, Wastewater Collection, and Wastewater Treatment Systems are financed and operated in a manner comparable to private business enterprises. The City prepares a Five-Year Financial Forecast in connection with the development of its annual budget to identify and record progress in meeting benchmark goals and objectives. In addition, business plans are developed on an annual basis for the Water, Gas, Electric and Wastewater Collection Systems.

The City uses the accrual basis of accounting with respect to the enterprise funds. Revenues are recognized when earned, and expenses are recognized when incurred. Utility revenues are used to pay operating costs, bond debt service, most capital expenditures, and reserve accumulations. In accordance with City policy, the cost of providing utility services to the general public continues to be funded predominately through user charges.

The Utilities and Public Works Departments are expected to continue meeting all of their financial obligations while charging retail rates to their customers that are comparable to those charged in neighboring cities. Careful budgeting and sound financial planning have been and will continue to be important factors in maintaining competitive rates. The Utilities Department recognizes the importance of minimizing wholesale commodity costs which is the largest expenditure category. Much time and effort are spent in dealing with the various commodity suppliers, regulatory agencies and commissions to help ensure reasonable and economical wholesale commodity costs.

Rates and Billing

The City Council has the authority to set utility rates for the Water System. The City sets rates to recover costs consistent with sound financial planning, while promoting efficient resource utilization and customer satisfaction. To achieve an appropriate balance between these objectives, the City forecasts all financial obligations and funding sources over a five year planning horizon. In this manner, timely rate adjustments for the Water System and the City's other utilities are coordinated to assure adequate funding, minimize consumer impacts, and promote rate stability. To provide for rate stability and to ensure funds are available to cover any unforeseen cost contingencies, the City funds an Operating Reserve for the Water System. The City also funds a Rate Stabilization Reserve for the Water System (the "RSR") from surplus net water sales revenues and withdraws money from the RSR in subsequent periods to supplement retail water sales revenue as needed. The RSR is a separate and distinct fund from the "Rate Stabilization Fund" authorized under the Indenture.

The City collects utility charges by means of a single monthly bill to each customer, listing charges for each service provided. Uncollectible accounts for all utilities average approximately 0.32% of the amount billed. In 2007, the City Council approved a project to implement a new utilities customer information system using SAP, the City's core business system, also known as their Enterprise Resource Planning (ERP) system. The system was successfully implemented in May 2009, and it allows for the billing of utilities customers. It also provides customer service staff with secure online access to customer information and gives customers the choice to pay their bill online. The City has improved the system over the years including continual upgrades of the system and additional features that allow for extended support hours.

Annual Financial Statements and Significant Accounting Policies

The City's annual financial statements will be audited by Macias Gini & O'Connell LLP ("MGO"), Sacramento, California, in accordance with generally accepted auditing standards and the standards for financial audits issued by the Comptroller General of the United States. The MGO audit report will contain opinions that the financial statements present fairly the financial position of the various funds maintained by the City. The annual financial statements include certain notes which may not be fully described in this Official Statement, but which constitute an integral part of the audited financial statements.

The City's most recent annual financial statement is attached as APPENDIX C—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2025. Copies of prior reports are available on the City's website (https://www.paloalto.gov/Departments/Administrative-Services/Financial-Reporting) or upon request to the Administrative Services Department, City of Palo Alto, 250 Hamilton Avenue, Palo Alto, CA 94301.

Governmental accounting systems are organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations and restrictions.

As indicated above, the various Systems are accounted for as enterprise funds. Enterprise funds are used to account for operations (i) that are financed and operated in a manner similar to private business enterprises (where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges), or (ii) where the governing body has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City's enterprise funds are accounted for using the accrual basis of accounting. Each fund's revenues are recognized when they are earned, and their expenses are recognized when they are incurred, except for revenues from utility customers, which are recognized based on cycle billings. Revenues for services provided but not billed at the end of a fiscal period are not material and are not accrued.

The City has not requested nor did the City obtain permission from MGO to include the audited financial statements as an appendix to this Official Statement. Accordingly MGO has not performed any post-audit review of the financial condition or operations of the City.

THE WATER SYSTEM

History

When the City was incorporated in 1894, the majority of its population was served by private water companies that drew their supply from relatively shallow wells. In 1896, a bond issue was approved for purchase by the City of these private water companies. In succeeding years, additional purchases completed the acquisition of privately owned facilities. Deep wells provided water to the gradually increasing population until 1938, when the decline of the groundwater table necessitated the purchase of imported water. Thereafter, the City's growing demand was met with increasing water supplies from the Public Utilities Commission of the City and County of San Francisco (the "SFPUC"), through a 36-inch pipeline. In 1962, in order to provide a very high quality of water to its customers, the City began supplying 100% of its potable water from the SFPUC.

Approximately 85% of the SFPUC supply is derived from snowfield run-off to the Hetch Hetchy Reservoir in Yosemite National Park, and the remaining 15% is derived from rainfall run-off stored in San Francisco's East Bay and Peninsula Reservoirs. The City also uses some recycled water produced at the City-operated Regional Water Quality Control Plant ("RWQCP"). Over the years, the City has added four additional SFPUC pipeline connections. Additionally, in 2019 the City signed a 76-year agreement with Santa Clara Valley Water ("Valley Water") and the City of Mountain View ("Mountain View"). The agreement includes Valley Water funding for a salt-removal facility at the RWQCP which will improve the quality of the recycled water. The recycled water is used in the City of Palo Alto for the irrigation of the municipal golf course, a park, and other minor applications.

Service Area

The City is the primary provider of water service within its incorporated limits and on other land owned or leased by the City. The City's service area encompasses approximately 26 square miles.

Water Storage and Distribution System

The City's water distribution system distributes potable water throughout the City to meet residential, commercial, industrial, irrigation and other water demands. The City operates five water supply connections or turnouts from the SFPUC's Hetch Hetchy system. The distribution system average pressure is 72 pounds per square inch, with the maximum and minimum pressures being experienced at the lower and higher elevations of the distribution system. The City's water system is presently comprised of 231 miles of main ranging in pipe diameter sizes from 4" to 30" serving nine pressure zones spanning 26 square miles. The City also operates five turnouts with SFPUC, seven booster pump stations and seven storage reservoirs ranging from 1.0 MG to 4.0 MG (with a total storage capacity of 13 MG). City water is distributed to approximately 24,000 metered connections.

Sources of Water Supply

The City's current potable water supply consists entirely of purchased water from the SFPUC's Hetch Hetchy system. The City also maintains interconnections with four neighboring water distribution systems (the City of East Palo Alto, Mountain View, Stanford, and Purissima Hills Water District). The City maintains eight groundwater wells, made up of 1 active well and 7 stand-by wells, with a 15.05 MGD capacity to provide near-normal water supply in case of SFPUC water supply interruption. The City also operates several tanks used to moderate pressure and deal with peaks in flow and demand (due to fire suppression, heavy usage times, etc.). The sources of the City's water supply are further described below.

SFPUC's Hetch Hetchy System. The SFPUC's water supply originates in the Hetch Hetchy reservoir and surrounding watersheds located in and around Yosemite National Park. Water flows by gravity across the California central valley to Sunol, where it is blended with water from local reservoirs, and is then pumped across the Hayward fault and through the Irvington Tunnel. There the SFPUC's Bay Division pipelines Number 1 and 2 carry water across the San Francisco Bay to Redwood City and to the Palo Alto Pipeline, which carries water south to three of the City's water turnouts at Sand Hill Road, Lytton Avenue and California Avenue. SFPUC Bay Division Pipelines Number 3 and 4 carry water around and below the southern end of San Francisco Bay to the City's other two connections to the SFPUC system at Arastradero Road and Page Mill Road. The resulting blend of water represents approximately 85% Hetch Hetchy water and 15% local reservoir water.

The City has two 25-year water delivery contracts with the SFPUC, both of which were executed in June 2009: (i) a "Water Supply Agreement" ("WSA"), which is a master agreement between the City and County of San Francisco and the 26 Wholesale Customers (the "Wholesale Customers"), and (ii) an Individual "Water Sales Contract." The contracts contain provisions for adjusting wholesale water rates to match changing wholesale revenue requirements of the SFPUC on a periodic basis.

The Water Supply Agreement guarantees a maximum supply of 184 million gallons per day (the "Supply Assurance") collectively to all of the SFPUC's 24 permanent Wholesale Customers. The SFPUC has agreed to deliver water to the Wholesale Customers up to the amount of the Supply Assurance, and this agreement is perpetual and survives the expiration of the WSA. The Supply Assurance is, however, subject to reduction due to water shortage, drought, scheduled regional water system ("RWS") maintenance activities, and emergencies. In 2009, the SFPUC and the Wholesale Customers agreed to maintain the existing allocation methodology that divides the Supply Assurance among the individual Wholesale Customers. Twenty-three of the 24 permanent Wholesale Customers have an "Individual Supply Guarantee" (ISG), which represents their dedicated individual share of the 184 mgd Supply Assurance. The ISGs are also perpetual and survive the expiration of the WSA. Palo Alto's ISG is 16.575 million gallons per day, or 8,333,000 hundred cubic feet

(CCF) per year[1]. In May 2018, the City's ISG was lowered to 16.575 million gallons per day from 17.075 million gallons per day upon City Council approval of a permanent ISG transfer of 0.5 million gallons per day to the City of East Palo Alto. In Fiscal Year 2024-25, the SFPUC delivered an average of approximately 9.327 million gallons per day to the City, or a total of 4,543,561 hundred cubic feet.

On October 30, 2008, the SFPUC approved the Water System Improvement Program ("WSIP"), a long-range financial plan and capital improvement plan to address capital improvement needs and priorities for its water enterprise, which are intended to replace old systems or upgrade systems to improve reliability and meet future customer needs. The WSIP is debt funded. The total estimated cost of the WSIP, which includes the SFPUC infrastructure to serve the City of San Francisco and its wholesale customers, including inflation and contingencies, is approximately \$4.8 billion. The Water Supply Agreement specifies the repayment method and the amount that is to be borne by the wholesale customers (including the City). As of June 30, 2025, 99.3% of the WSIP regional construction contracts are complete. The currently estimated WSIP completion date is June 2032.

The City anticipates that purchased water costs will continue to increase due to inflationary increases in operating costs and a gradual increase in debt service. SFPUC wholesale water rates for Fiscal Year 2025-26 were \$5.80 per hundred cubic feet. SFPUC held a public hearing on April 28, 2026 and adopted the Fiscal Year 2026-27 Wholesale Water Rate of \$6.23 per hundred cubic feet.

The SFPUC continues to evaluate its aging system for other needed infrastructure improvements; future major improvements include dam safety and Mountain Tunnel repairs. The wholesale water rates for the past five years are as follows:

Fiscal Year	***Rate per CCF***
2021	\$4.10
2022	4.10
2023	4.75
2024	5.21
2025	5.67
2026	5.80

The latest forecast of wholesale water prices from the SFPUC incorporates the expected cost, schedule, and debt payment for the WSIP. San Francisco's Utilities Advisory Commission voted in April 2026 to pass the recommended 7% increase in water rates, which take effect July 1, 2026. The price forecast is as follows:

Fiscal Year	***Rate per CCF***
2027	\$6.23
2028	6.70
2029	6.93
2030	7.09
2031	7.41

Interconnections with Neighboring Systems. The City maintains interconnections with four neighboring water distribution systems: Mountain View, the Stanford University campus, Purissima Hills Water District, and the City of East Palo Alto ("East Palo Alto"). These interconnections are available for use in cases of water distribution system emergencies. The City has the following interties with the other agencies: 1 intertie with East Palo Alto 6 inches in diameter, 2 interties with the City of Mountain View 6 inches in diameter, 2

[1] 1 CCF equals 748 gallons.

interties with Stanford University campus 8 inches in diameter, and 2 interties with Purissima Hills Water District that are 8 and 12 inches in diameter.

Water Allocation Plan. The Water Supply Agreement includes a Water Shortage Allocation Plan ("WSAP", also known as the "Tier 1 Shortage Plan"). The Tier 1 Shortage Plan describes the method for allocating water from the RWS between the SFPUC's Retail Customers, on the one hand, and the Wholesale Customers collectively, on the other, during system-wide shortages caused by drought. The Tier 1 Shortage Plan applies only when the SFPUC determines that a system-wide water shortage due to drought exists, as set forth in a declaration of water shortage emergency by the SFPUC Commission. In the absence of such a declaration, the SFPUC also may opt to request voluntary cutbacks from its Retail and Wholesale Customers to achieve water use reductions. The SFPUC and the Wholesale Customers most recently amended the Tier 1 Shortage Plan in 2025.

Tier 1 Shortage Plan. The SFPUC allocates water under the Tier 1 Shortage Plan when it determines that the projected available water supply is less than projected system-wide water purchases for the upcoming Supply Year, defined as the period from July 1 through June 30. The following table shows the Retail Customers' share and the Wholesale Customers' share of the annual water supply available during shortages depending on the level of system-wide reduction in water use that is required. If the SFPUC determines that the level of system-wide reduction required during a shortage is greater than 20 percent, the SFPUC and the Wholesale Customers will meet to discuss the appropriate Retail and Wholesale Customers' shares of available water. The Retail and Wholesale Customers' shares of available water are also known as the Retail and Wholesale Customers' Tier 1 Allocations. The Wholesale Customers' Tier 1 Allocation will be apportioned among the individual Wholesale Customers based on a separate methodology, known as the Tier 2 Drought Response Implementation Plan ("Tier 2 Plan"), which is separately adopted by all the Wholesale Customers without the SFPUC's involvement as discussed further below.

Level of System-Wide Reduction in Water Use Required	***Share of Available Water***	
	SFPUC Share	***Wholesale Customers Share***
5% or less	35.5%	64.5%
6% through 10%	36.0%	64.0%
11% through 15%	37.0%	63.0%
16% through 20%	37.5%	62.5%

The Tier 1 Shortage Plan allows for voluntary transfers of shortage allocations between the SFPUC and any Wholesale Customer as well as between Wholesale Customers themselves. In addition, voluntary transfers of water "banked" by the SFPUC or a Wholesale Customer, through reductions in usage greater than required, may occur.

Under the Tier 1 Shortage Plan, if the Retail Customers' Tier 1 Allocation results in the Retail Customers receiving a "positive allocation" (i.e., a supply of additional water rather than a required reduction in water use), then the excess percentage for Retail is re-allocated to the Wholesale Customers' Tier 1 Allocation. The Retail Customers are also required to conserve a minimum of 5% for any level of reduction in system-wide water use. The additional water conserved by Retail Customers up to the minimum 5% level is deemed as remaining in RWS storage for inclusion in the calculation of projected available water in future successive dry years. The Tier 1 Shortage Plan will expire at the end of the term of the WSA in 2034, unless the SFPUC and the Wholesale Customers mutually agree to revise or terminate it prior to that date.

Tier 2 Drought Allocations. The Wholesale Customers negotiated and adopted the latest Tier 2 Plan in 2025, which allocates the Wholesale Customers' Tier 1 Allocations from the Tier 1 Shortage Plan among each of the 26 Wholesale Customers. These Tier 2 Allocations are based on a formula that takes into account multiple factors for each Wholesale Customer including residential population, non-residential "base" (i.e., indoor) use, seasonal uses, total RWS purchases in recent non-drought years, and ISG.

The Tier 2 Plan employs a structured, sequential, five-step method to allocate water to each Wholesale Customer. The allocations are constrained by minimum and maximum cutbacks, which establish the maximum final allocation and minimum guaranteed final allocation, respectively. No agency's final allocation can fall outside of these bounds. The allocation prioritizes indoor uses then allocates the remaining available water based on different customer demands. First focusing on indoor demand, water is allocated based on an agency's residential population and the State residential efficient indoor standard (47 gallons per person per day (GPCD) in 2025), followed by an allocation based on non-residential "base" (i.e., indoor) use. A limited amount of water is allocated based on seasonal use (e.g., cooling towers and irrigation). Finally, the remaining supply is allocated based on a weighted share of two-thirds RWS purchases in the recent non-drought years and one-third ISG. Upon implementation of the Tier 2 Plan, each Wholesale Customers' proportion would be expressed as a percentage of the available Tier 1 Allocation (the "Allocation Factor").

The Tier 2 Plan requires that the Allocation Factors be calculated each year in preparation for a potential water shortage emergency. As the Wholesale Customers change their water use characteristics (e.g., increases or decreases in RWS purchases and use of other water sources, changes in monthly water use patterns, or changes in population), the Allocation Factor for each Wholesale Customer will also change. For long-term planning purposes, each Wholesale Customer may use the value identified in the Tier 2 Plan as its Allocation Factor.

Emergency Wells. Due to the critical need to ensure sufficient water supplies are provided under emergency conditions, in accordance with City Council direction, the City accelerated the construction of the projects recommended in the Water Wells, Regional Storage and Distribution System Study, completed in 1999. This study identified system deficiencies and recommended capital improvements to improve the operation and reliability of the City's water distribution system, particularly during emergency situations. The City maintains five existing deep wells, three new wells, a 2.5 million gallon storage reservoir and associated pump station were constructed between 2009 and 2013 as part of an Emergency Water Supply and Storage Project. The primary goal was to correct the deficiency in the City's emergency water supply. The well system can now support a minimum of eight hours of normal water use at the maximum day demand level and four hours of fire suppression at the design fire duration level. The groundwater system may also be used to a limited extent for water supply during drought conditions (up to 1,500 acre feet per year) and is capable of providing normal wintertime supply needs during extended shutdowns of the SFPUC system. Up to 11,000 gpm of reliable well capacity is available for emergency use as well as 13 million gallons of storage.

PFAS. Per- and poly-fluoroalkyl substances ("PFAS") refers to a group of thousands of human-made chemicals that resist heat, oils, stains and water. They have been widely used in consumer products like nonstick cookware, stain resistant carpets and fabrics, waterproofing clothing, and food packaging. They have also been used in industrial processes and firefighting foams. PFAS are often called "forever chemicals" because they break down very slowly and can accumulate in humans, animals and the environment. PFAS have been found in water, air, and soil worldwide. Perfluorooctanoic acid ("PFOA") and perfluorooctane sulfonic acid ("PFOS") are two common PFAS chemicals.

The Utilities Department monitors and tests its water supply sources to ensure full compliance with state and federal regulations. The City's primary source of water is imported from the SFPUC Hetch Hetchy system. SFPUC conducts comprehensive testing for PFAS and other regulated constituents on the drinking water supplied to the City before it enters the local distribution system. The City maintains groundwater wells intended primarily for emergency back-up supply. The Utilities Department actively monitors and samples water from the City's groundwater wells in accordance with California Division of Drinking Water (DDW) General Order DW-2022-0001-DDW. No PFAS contaminants have been detected in either the primary imported water supply from SFPUC or the City's supplemental groundwater supply. The water provided by the City fully complies with federal Maximum Contaminant Levels (MCLs) as well as state reporting requirements. Because testing confirms no detectable levels or levels within allowable limits for different PFAS constituents, no additional treatment or infrastructure modifications for PFAS mitigation are required at this time. The City will continue to monitor to verify ongoing compliance with all evolving state and federal standards.

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

In 2013 the City participated in a debt issuance by BAWSCA. The debt was issued to repay certain long-term costs associated with the SFPUC water supply contract. The City's share of BAWSCA's annual debt service was $1.6 million in Fiscal Year 2024-25 and $1.5 million in Fiscal Year 2025-26; the City's annual financial obligation to BAWSCA varies based on the City's annual water purchases compared to other BAWSCA agencies.

Water Conservation Policies and Procedures

The City Council adopts an Urban Water Management Plan ("UWMP") every five years. The latest update to the UWMP was adopted in June 2026 (the "2025 UWMP"). The 2025 UWMP contains the Urban Water Shortage Contingency Plan, which describes what the City would do in case of a water supply shortage. The plan describes a set of activities that would need to be undertaken during various stages of a water supply shortage. There are six water shortage stages culminating in Stage VI, which is a critical water shortage where water supplies are reduced by more than 50%. Actions taken to respond to water shortage stages include outreach campaigns, water audit programs, expanded incentive programs for customers to install water efficient appliances, implementation of water use restrictions, and modifications of water rate structures or rationing programs. In a water shortage situation, the City would select the appropriate mix of actions to respond to the severity of the water shortage. The City has had extensive experience implementing programs to reduce customer use of water in water shortage situations. In the drought that occurred between 2012 and 2016, the City implemented mandatory restrictions and residents reduced water usage by 30%. This was followed by the drought that occurred in 2020-2023 during which the City reduced water use by 15% in response to voluntary water reductions measures. The most recent droughts have led to sustained reductions in water demand, and the City believes that additional reductions during future droughts are unlikely to be as dramatic as those achieved during the 2015 drought.

Water conservation programs are primarily administered by Valley Water. They include landscape audits for both residents and businesses, rebates and workshops for efficient landscape and irrigation equipment, as well as a custom program for businesses to encourage the innovative use of water conservation methods in business processes. AMI meters and customer portals provide customers with timely leak alerts and high-usage notifications to reduce water loss.

Water Supply Reliability. Since the City relies on the SFPUC RWS for its potable water supplies, the City's water supply reliability mirrors that of the RWS. During a water supply shortage, contractually agreed upon allocation methods apply in limited circumstances. The amount of water available to San Francisco's Retail Customers (the residential and commercial customers in the City of San Francisco) and wholesale customers will be impacted by the outcome of the Water Quality Control Plan for the San Francisco Bay/Sacramento-San Joaquin Delta Estuary (Bay Delta Plan Amendment or Bay Delta Plan). In August 2018, the City Council voted to support the Bay Delta Plan and sent a letter expressing this policy position to BAWSCA, the California State Water Resources Control Board, SFPUC, and other stakeholders. The 2025 UWMP assumes the Bay Delta Plan and associated unimpaired flow requirements for the Tuolumne River will be implemented as adopted by the state.

Given the City's forecasted water demand and projections of water supply availability provided by the SFPUC, the City anticipates the need to implement water use reductions of up to 38% in the first dry year post Bay Delta Plan implementation. During the drought that occurred in 2012-16 (the "2015 Drought"), the City was able to reduce water use by 30% by restricting landscape irrigation to two times per week as well as a number of other measures. This was followed by the drought that occurred in 2020-23 (the "2021 Drought") during which the City reduced water use by 15% in response to voluntary water reduction measures. The City's proposed Water Shortage Contingency Plan includes actions to achieve water use reductions above 50%, but the City does not have actual experience in implementing such drastic measures. With each progressive stage, enforcement, rate strategies, and water use restrictions will be increased while putting in place mitigation measures to maintain the health of the City's tree canopy.

In 2020, the City completed the One Water Plan, which presents a framework for evaluating water supply and water conservation alternative portfolios that may mitigate the impact of future water supply uncertainties such as severe multi-year drought, changes in climate, water demand, and regulations. The One Water Plan takes into consideration long-term reliability and dry year needs as well as cost, quality, and public acceptance.

Short-term emergency water needs will be met with the City's groundwater wells and storage system, which was recently renovated to provide adequate fire protection following a disaster such as a major earthquake. See " — Sources of Water Supply — Emergency Wells."

Historical Production and Deliveries

The following table sets forth a five-year history of water purchased from the SFPUC and delivered to customers in the Water System's service area.

Table 1
WATER SYSTEM
WATER PURCHASES AND SALES
(in hundreds of cubic feet)
Fiscal Years 2020-21 through 2026-27

	2020-21	*2021-22*	*2022-23*	*2023-24*	*2024-25*	*2025-26 Est.*	*2026-27 Adopted Budget*
Wholesale Water Purchases	4,785,384	4,709,184	4,210,399	4,319,814	4,543,561	4,466,055	4,510,198
Retail Water Sales	4,770,866	4,458,568	3,866,568	4,146,710	4,284,538	4,193,496	4,203,938

Source: City of Palo Alto, Utilities Department.

Capital Improvement Program Summary

The City currently projects that it will undertake capital improvements to the Water System for the current and the next five fiscal years in the aggregate amount of approximately $73 million. The following table displays these projects. The City is currently evaluating whether to rehabilitate or replace two of its reservoir tanks. Rehabilitation of both tanks would cost approximately $5.5 million. Replacement of both tanks would cost approximately $17 million. In the event that the City decides to replace one or both tanks, it may consider bond financing for all or a portion of the project costs.

Table 2
WATER SYSTEM
WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM SUMMARY

Project	*Adopted 2026-27*	*Adopted 2027-28*	*Adopted 2028-29*	*Adopted 2029-30*	*Adopted 2030-31*	*Total*
Use of Funds						
Water Fund Administration	$ 1,694,824	$ 1,733,372	$ 1,759,453	$ 1,790,832	$ 1,820,056	$ 8,798,537
Water System Customer Connections	1,240,000	1,280,000	1,320,000	1,360,000	1,390,000	6,590,000
Water Main Replacement - Project 30	4,366,839	0	0	0	0	4,366,839
Water Main Replacement - Project 31	0	5,450,000	0	0	0	5,450,000
Water Main Replacement - Project 32	0	0	530,000	11,060,000	0	11,590,000
Water Main Replacement - Project 33	0	0	0	0	590,000	590,000
Main Replacements Total	$ 4,366,839	$ 5,450,000	$ 530,000	$11,060,000	$ 590,000	$21,996,839
Water Distribution System Improvements	$ 370,000	$ 520,000	$ 250,000	$ 250,000	$ 260,000	$ 1,650,000
Water General Equipment/Tools	50,000	50,000	50,000	50,000	50,000	250,000
Water Line Replacement at Arastradero Creek	683,186	800,000	1,400,000	0	0	2,883,186
Water Meters	500,000	500,000	280,000	450,000	475,000	2,205,000
Water Service and Hydrant Replacement	420,290	399,270	308,270	300,000	300,000	1,727,830
Water System Master Plan	150,000	600,000	0	0	0	750,000
Water System Supply Improvements	1,380,990	2,489,000	1,000,000	800,000	840,000	6,509,990
Water Tank Seismic Upgrade and Rehabilitation	100,000	550,000	8,780,000	0	7,780,000	17,210,000
Water, Gas, Wastewater Utility GIS Data	474,520	520,000	400,000	630,000	660,000	2,684,520
System Improvements Total	4,128,986	6,428,270	12,468,270	2,480,000	10,365,000	35,870,526
TOTAL USES	$11,430,649	$14,891,642	$16,077,723	$16,690,832	$14,165,056	$73,255,902
Source of Funds						
Water System Customer Connections	$ 1,573,940	$ 3,101,600	$ 3,141,600	$ 3,181,600	$ 3,211,600	$14,210,340
Transfer from Gas Fund	186,400	194,000	200,000	210,800	222,183	1,013,383
Transfer from Wastewater Collection Fund	186,400	194,000	200,000	210,800	222,183	1,013,383
Ratepayer Revenue	9,483,909	11,402,042	12,536,123	13,087,632	10,509,090	57,018,796
TOTAL SOURCES	$11,430,649	$14,891,642	$16,077,723	$16,690,832	$14,165,056	$73,255,902

Source: City of Palo Alto Utilities Department.

Water Rates, Fees and Charges

Rate Setting Process. Water rates are based entirely on the City's costs of purchased water and operating and maintaining the Water System. Purchased water costs comprise about 55% of the Water System's budget. The City receives annual cost projections from its water wholesaler, SFPUC. To establish retail rates, these supply costs are added to other expense requirements related to operation of the water distribution system, including the payment of any outstanding debt and the funding of reserves.

Historical and Current Rate Increases. The City has historically adjusted water rates as necessary for each customer class. The most recent proposed rate increase was implemented on July 1, 2026. The City's rate structure consists of distribution rates and a commodity rate. The distribution rates are based on the water utility's cost of service, which are reviewed and approved by the City on an annual basis. The commodity rate is a pass-through of the SFPUC's wholesale rate. The City has a practice of approving 5-year pass-through provisions for the SFPUC wholesale rate. As previously discussed, SFPUC is projecting annual rate increases for the next five years. Adjustments to the City's water rates are subject to the noticing and public hearing requirements of Proposition 218. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES — Articles XIIIC and XIIID; Proposition 218." Approximately 15% of the Water System's total revenues come from fixed charges. The following table sets forth proposed and projected water rate increases.

Table 3
WATER SYSTEM
HISTORIC AND PROPOSED WATER RATE INCREASES FOR ALL CUSTOMER CLASSES[(1)]

Year	***Increase***
2020-21	0%
2021-22	0
2022-23	5
2023-24	5
2024-25	10
2025-26	10
2026-27	8
2027-28	9
2028-29	9

(1) The percentages in this table represent overall average rate increases, which include both the City's distribution rates and the SFPUC wholesale commodity rate.

Source: City of Palo Alto, Utilities Department.

Water Rate Structure. The City has five rate schedules: separately metered residential customers (W-1), commercial and master-metered multi-family residential customers (W-4), irrigation-only services (W-7), services to fire sprinkler systems in buildings and private hydrants (W-3), and service to fire hydrant rental meters used for construction (W-2). All customers pay a monthly service charge based on the size of their inlet meter. This charge represents meter reading, billing, and other customer service costs, and also the cost of maintaining the capability to deliver a peak flow for that customer based on their meter size.

All customers are also charged for each CCF (one hundred cubic feet) of water used. Separately metered residential customers are charged on a tiered basis, with the first 0.2 CCF per day (6 CCF for a 30-day billing period) charged at the first-tier price per CCF, and all additional units charged a higher tier price per CCF. Commercial customers, including most multi-family customers, pay a uniform price for each CCF used. A separate rate per CCF exists for separately metered irrigation service.

The following tables set forth the Water System rates for the following: General Residential Water Service, Residential Master-Metered and General Non-Residential Water Service, and Non-Residential Irrigation Water Services. Water Rate Structure (1) monthly service charges, (2) commodity rate, (3) distribution rate and (4) drought surcharges. The rates shown below are per CCF of water usage.

General Residential Water Service. The schedule below applies to separately metered single-family residential dwellings receiving water service from the City.

Table 4
WATER SYSTEM
GENERAL RESIDENTIAL WATER SERVICE
In Effect Since July 1, 2026

Monthly Customer Charge (by Meter Size)	***Per Meter Per Month***
Residential:	
5/8-inch to 1 inch	$ 29.92
1 ½ inch	96.69
2-inch meter	149.57
3-inch meter	317.04
4-inch meter	563.87
6-inch meter	1,154.44
8-inch meter	2,124.06
10-inch meter	3,358.10
12-inch meter	4,415.87

Volumetric Rates	***Per Hundred Cubic Feet Per Month***
Commodity Rate:	
Water delivery charge from SFPUC	$ 6.23
Distribution Rate:	
Tier 1 Usage	3.77
Tier 2 Usage	8.81

Source: City of Palo Alto, Utilities Department.

A drought surcharge will be added to the customer's applicable commodity rate for Tier 1 and Tier 2 Water usage when the City Council has determined that a water reduction level is in effect for the City. The drought surcharges in the table below are measured in dollars per CCF.

Water Usage Reduction level	**Level 1 (10/15%)**	**Level 2 (20%)**	**Level 3 (25%)**
Tier 1	0.20	0.43	0.64
Tier 2	0.58	1.21	1.85

Source: City of Palo Alto, Utilities Department.

Temporary unmetered service to residential subdivision developers, per connection	$6.00

Source: City of Palo Alto, Utilities Department.

Residential Master-Metered and General Non-Residential Water Service. The schedule below applies to Water Services to non-residential buildings, and multi-family residential dwellings served through a Master-Meter.

Table 5
WATER SYSTEM
RESIDENTIAL MASTER-METERED AND GENERAL
NON-RESIDENTIAL WATER SERVICE
In Effect Since July 1, 2026

Monthly Customer Charge (by Meter Size)	***Per Meter Per Month***
5/8-inch meter	$ 26.16
¾-inch meter	34.99
1-inch meter	52.62
1½-inch meter	96.69
2-inch meter	149.57
3-inch meter	317.04
4-inch meter	563.87
6-inch meter	1,154.44
8-inch meter	2,124.06
10-inch meter	3,358.10
12-inch meter	4,415.87

Volumetric Rates	***Per Hundred Cubic Feet Per Month***
Commodity Rate:	
Water delivery charge from SFPUC	$6.23
Distribution Rate:	5.32

A drought surcharge will be added to the customer's applicable commodity rate when the City Council has determined that a water reduction level is in effect for the City. The drought surcharges in the table below are measured in dollars per CCF.

Water Usage Reduction level	**Level 1 (10/15%)**	**Level 2 (20%)**	**Level 3 (25%)**
Surcharge	0.26	0.53	0.77

Source: City of Palo Alto, Utilities Department.

Non-Residential Irrigation Water Services. The schedule below applies to non-residential Water Service supplying dedicated irrigation meters.

Table 6
WATER SYSTEM
NON-RESIDENTIAL IRRIGATION WATER SERVICES
In Effect Since July 1, 2026

Monthly Customer Charge (by Meter Size)	
5/8-inch meter	$ 26.16
¾-inch meter	34.99
1-inch meter	52.62
1½-inch meter	96.69
2-inch meter	149.57
3-inch meter	317.04
4-inch meter	563.87
6-inch meter	1,154.44
8-inch meter	2,124.06
10-inch meter	3,358.10
12-inch meter	4,415.87

Volumetric Rates	***Per Hundred Cubic Feet Per Month***
Commodity Rate:	
Water delivery charge from SFPUC	$6.23
Distribution Rate:	8.11

A drought surcharge will be added to the customer's applicable commodity rate when the City Council has determined that a water reduction level is in effect for the City. The drought surcharges in the table below are measured in dollars per CCF.

Water Usage Reduction level	**Level 1 (10/15%)**	**Level 2 (20%)**	**Level 3 (25%)**
Surcharge	0.53	1.25	2.02

Source: City of Palo Alto, Utilities Department.

Projected Rates. Beginning in Fiscal Year 2027-28, rates are projected to increase by 9%, 9%, 7% and 6% per year for each of the next four years, respectively. These projected rate increases could change depending on the future projections, and will largely depend on capital projects and restoration of reserves, as well as the future cost of purchased water and the volume of water sales.

Comparative Monthly Water Rates. The table below shows comparative monthly residential water bills for a usage rate of 9 hundred cubic feet by water suppliers serving neighboring communities for fiscal year 2025-26.

Table 7
WATER SYSTEM
COMPARATIVE RATES FOR AVERAGE MONTHLY RESIDENTIAL SERVICE
Fiscal Year 2025-26

Water Provider	*Average Monthly Rate* [(1)]
Mountain View	$101.14
Menlo Park	$102.57
Palo Alto	**$125.19**
Redwood City	$128.81
Burlingame	$134.48
Millbrae	$161.79
Average excluding Palo Alto	$126.76

(1) Represents rate for typical residential users based on consumption of 9 CCF plus a service charge for a 5/8" meter.
Source: City of Palo Alto, Utilities Department.

Water Demand and Customer Base

On average, the City's water customers consume 8.8 million gallons of water per day. However, demand rises and falls depending on the season, with the summer months showing high consumption and the fall and winter months having lower consumption. In fiscal year 2024-25, the Water System sold approximately 428.45 million cubic feet of water to approximately 20,600 users. (This amount is lower than water purchased from the SFPUC due to water losses in the storage and transmission systems, billing period differences and unmetered water uses.)

The following table sets forth a five-year history of the number of accounts for the Water System and the estimated number of accounts as of June 30, 2026.

Table 8
WATER SYSTEM
NUMBER OF ACCOUNTS
As of June 30, 2021 through 2026

Fiscal Year	*Number of Accounts*
2020-21	22,393
2021-22	22,414
2022-23	22,499
2023-24	22,631
2024-25	20,579
2025-26[(1)]	20,621

(1) Estimated.
Source: City of Palo Alto, Utilities Department.

The following table shows billing amounts, water consumption in hundred cubic feet by customer type, and water consumption as a percentage of total consumption by type of customer for active water accounts during fiscal year 2024-25.

Table 9
WATER SYSTEM
SUMMARY OF WATER ACCOUNTS AND USAGE BY USER TYPE
Fiscal Year 2024-25

User Type	***Number of Accounts***	***Billings***	***Consumption (in CCF)***	***Consumption as Percent of Total***
Single Family Residences	15,589	$24,745,884	1,893,605	44%
Multifamily	1,983	6,901,156	583,773	14
Commercial/Industrial	1,606	11,341,499	991,595	23
Other	1,401	10,701,272	815,565	19
Total	20,579	53,689,812	4,284,538	100

Source: City of Palo Alto, Utilities Department.

Largest Water Customers. For Fiscal Year 2024-25, total consumption was 4,284,538 CCF, and total operating revenues were $56.5 million. The ten largest customers accounted for approximately 21.32% of total consumption and 20.09% of total operating revenue. The largest customer (other than the City) accounted for 4.24% of total consumption and 2.12% of total operating revenue. Residential customers make up 58% of the Water System consumption.

The following table lists the ten largest customers of the Water System for fiscal year 2024-25, in alphabetical order:

Table 10
WATER SYSTEM
TEN LARGEST CUSTOMERS
Fiscal Year 2024-25

Primary Business Activity	***Name***
Government	City of Palo Alto
High Tech	Hewlett Packard
Financial Services	OCA Holdings LLC
Recreation	Palo Alto Hills Golf & Country Club
Education	Palo Alto Unified School District
Real Estate	Simon Property Group
Medical	Stanford Hospital & Clinic
Apartment/Hotel	Stanford West Management
Medical	Veterans Administration Hospital
Technology	VMware Inc./Broadcom Inc.

Source: City of Palo Alto, Utilities Department.

Management Discussion of Operations

Utilities Strategic Plan. The City continues to focus on providing a high quality and reliable source of water for its residents. The Palo Alto City Council approved the 2018 Utilities Strategic Plan on March 19, 2018. The Strategic Plan provides a road map to guide the CPAU efforts. The four priority focus areas are workforce, collaboration, technology and financial and resource optimization.

Water Supply. With regard to water supply, the City's wholesale supplier, the SFPUC, has provided rate projections indicating that the City's wholesale costs will steadily increase over the next six years. This is due to the construction of seismic upgrades to the SFPUC water delivery system. These costs will be borne by the City and County of San Francisco as well as the SFPUC's wholesale customers, including the City.

Sales Revenues. Water sales revenue during the past five years grew from $46.7 million in fiscal year 2020-21 to $53.5 million in fiscal year 2024-25. This represents a compound annual growth rate of 3.4% over this period. Annual change in water rates is provided in Table 3. In fiscal years 2025-26 and 2026-27, adopted water rates were of 10% and 8%, respectively, to recover rising wholesale purchase costs and distribution operating and capital costs. Between fiscal year 2027-28 and fiscal year 2030-31, average water rates are projected to increase by 9%, 9%, 7% and 6% annually to fund capital projects and offset rising wholesale water purchase costs.

Capital Improvements. To improve the operation and reliability of the City's water distribution system, the City's Capital Improvement Program includes both ongoing maintenance and infrastructure upgrades as well as seismic upgrades. See "THE WATER SYSTEM—Capital Improvement Program Summary" above. This includes water main replacements, water tank seismic upgrades and rehabilitation, water system supply improvements, and other critical infrastructure maintenance.

Statement of Net Position

The following table sets forth the balance sheets of the Water System for fiscal years 2020-21 through 2024-25. These numbers are excerpted from the audited financial statements of the City which were prepared in accordance with generally accepted accounting principles.

Table 11
WATER SYSTEM
STATEMENT OF NET POSITION
Fiscal Years Ended June 30, 2021 through 2025
(Dollars in Thousands)

	2020-21	*2021-22*	*2022-23*	*2023-24*	*2024-25*
ASSETS					
CURRENT ASSETS:					
Cash and Investments	$ 46,602	$ 43,523	$ 34,369	$ 26,263	$ 23,789
Accounts Receivable (Net)	6,636	6,142	6,178	7,277	7,920
Interest Receivable	228	239	247	194	173
Prepaid expense	-	58	50	42	33
Restricted cash and investments with fiscal agents and trustees	2,906	2,906	2,813	2,678	2,553
TOTAL CURRENT ASSETS	$ 56,372	$ 52,868	$ 43,657	$ 36,454	$ 34,468
NON-CURRENT ASSETS:					
Prepaid expense	67	-	-	-	-
Capital assets	-	-	-	-	-
Nondepreciable	17,926	17,644	24,400	22,570	25,279
Depreciable, net	115,588	120,209	118,378	127,244	127,826
Total noncurrent assets	133,581	137,853	142,778	149,814	143,105
TOTAL ASSETS	$189,953	$ 190,721	$ 186,435	$ 186,268	$ 187,575
DEFERRED OUTFLOWS OF RESOURCES:					
Unamortized loss from refunding	$ 65	$ 52	$ 39	$ 26	$ 13
Pension related	2,660	2,434	4,178	3,905	3,090
OPEB related	757	905	1,248	1,631	1,262
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 3,482	$ 3,391	$ 5,465	$ 5,562	$ 4,365
LIABILITIES					
CURRENT LIABILITIES:					
Accounts Payable and Accrued Liabilities	$ 2,175	$ 5,288	$ 4,306	$ 6,024	$ 1,755
Accrued Salaries and Benefits	176	217	230	265	294
Current portion of long term debt	1,852	1,930	-	-	-
Current portion of lease liabilities	-	124	158	40	149
Current portion of SBITA liabilities	-	-	37	-	15
Current portion of long term debt	-	-	2,008	2,087	2,172
Accrued claims payable	-	-	-	-	-
TOTAL LIABILITIES	$ 4,203	$ 7,559	$ 6,739	$ 8,416	$ 4,385
NONCURRENT LIABILITIES:					
Net pension liabilities	$ 16,803	$ 11,564	$ 16,962	$ 17,115	$ 16,242
Net OPEB liabilities	4,009	2,346	3,357	3,820	3,451
Lease liabilities	-	201	56	16	648
SBITA liabilities	-	-	-	-	15
Long term debt, net of unamortized discounts/premiums	26,051	24,083	22,038	19,917	17,707
Total noncurrent liabilities	46,863	38,194	42,413	40,868	38,063
TOTAL LIABILITIES	$ 51,066	$ 45,753	$ 49,152	$ 49,284	$ 42,448
DEFERRED INFLOWS OF RESOURCES:					
Pension related	-	4,072	207	92	-
OPEB related	802	1,987	859	509	228
TOTAL DEFERRED INFLOWS OF RESOURCES	-	6,059	1,066	601	-
NET POSITION					
Net Investment in capital assets	$105,676	$ 111,567	$ 118,520	$ 127,780	$ 132,412
Restricted for:					
Debt service	2,906	2,906	2,813	2,678	2,553
Unrestricted (deficit)	32,985	27,827	20,349	11,487	14,297
TOTAL NET POSITION	$141,657	$ 142,300	$ 141,682	$ 141,945	$ 149,262

Source: City of Palo Alto Comprehensive Annual Financial Statements, 2021-25.

Historical Operating Results

The following table is a summary of operating results and debt service coverage of the Water System for the last five fiscal years. These results have been derived from the audited financial statements of the City for fiscal years 2020-21 through 2024-25. See APPENDIX C—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2025.

Table 12
WATER SYSTEM
SUMMARY STATEMENT OF HISTORICAL REVENUES, EXPENSES AND CHANGES IN FUND NET POSITIONS
Fiscal Years 2020-21 through 2024-25
(Dollars in Thousands)

	2020-21	*2021-22*	*2022-23*	*2023-24*	*2024-25*
OPERATING REVENUES:					
Sales of Utilities:					
Customers	$ 44,154	$ 40,587	$ 39,823	$ 44,824	$ 51,167
City Departments	2,532	2,476	1,979	2,608	2,370
Service Connection Charge & Miscellaneous	1,239	951	1,005	1,661	1,489
Other Operating Revenues	887	878	915	1,046	1,482
Total Operating Revenues	$ 48,812	$ 44,892	$ 43,722	$ 50,139	$ 56,508
OPERATING EXPENSES:					
Purchase of Utilities	$ 21,935	$ 21,249	$ 21,744	$ 24,651(2)	$ 27,856(2)
Administration and General	5,771	4,671	5,779	7,844	6,689
Engineering (Operating)	663	492	468	638	652
Resource Management	1,215	1,262	1,591	1,428	1,105
Operations and Maintenance	7,401	7,189	7,531	9,121	8,615
Rent	2,225	2,270	2,364	2,483	2,244
Depreciation and Amortization	3,127	3,570	3,753	3,930	3,959
Total Operating Expenses	$ 42,338	$ 40,703	$ 43,230	$ 50,095	$ 51,120
Operating Income (Loss)	$ 6,474	$ 4,189	$ 492	$ 44	$ 5,388
NON-OPERATING REVENUES (EXPENSES):					
Investment earnings	$ 366	$ (2,915)	$ 435	$ 2,460	$ 2,009
Interest Expense	(1,476)	(1,453)	(1,332)	(1,251)	(1,210)
Capacity Fees					
Loss on Disposal of Capital Assets	(8)	(72)	(43)	(168)	(57)
Other nonoperating revenues	462	676	421	403	395
Total Non-operating Revenues (Expenses)	$ (656)	$ (3,764)	$ (519)	$ 1,444	$ 1,137
INCOME (LOSS) BEFORE OPERATING TRANSFERS	$ 5,818	$ 425	$ (27)	$ 1,488	$ 6,525
Capital contributions	533(3)	123	131	255(3)	333(3)
Operating Transfers In	557	323	-	342	526
Operating Transfers (Out)(4)	(268)	(138)	(722)	(1,822)	(67)
Change in net position	$ 6,640	$ 733	$ (618)	$ 263	$ 7,317
Net Revenues Available for Debt Service(1)	$ 11,251	$ 5,828	$ 4,510	$ 5,612	$ 12,543
2009 Water Revenue Bonds	$ 2,563	$ 2,563	$ 2,565	$ 2,564	$ 2,565
2011 Utility Revenue Refunding Bonds (Water System Portion)	656	657	658	656	654
Total Debt Service	$ 3,219	$ 3,220	$ 3,223	$ 3,220	$ 3,219
Debt Service Coverage	3.50x	1.81x	1.40x	1.74x	3.90x
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED					$141,945
NET POSITION, BEGINNING OF YEAR	$134,927	$141,567	$142,300	$141,682	$141,945
NET POSITION, END OF YEAR	$141,567	$142,300	$141,682	$141,945	$149,262

[Footnotes appear on following page]

[Footnotes to Table 12]

(1) Depreciation and amortization, unrealized gain and loss on investments, loss on disposal of fixed asset and Interest Expense have been added back.
(2) Significant increases due to SFPUC wholesale water rates increasing by 10% in Fiscal Year 2023-24 and 9% in and Fiscal Year 2024-25. Furthermore, water sales increased post-drought, contributing to increased purchase costs.
(3) Capital contributions represent capacity fees for new services. For these years, there were larger developments and connections.
(4) In general, Operating Transfers (Out) are for (i) centralized costs and (ii) the Water System's cost share of projects led by another utility. The large transfers out in Fiscal Year 2023-24 were due to overcollection and repayment of contribution for the Water, Gas, Wastewater Utility GIS Data project from the Water System to the Gas Utility and Wastewater Utility for Fiscal Years 2017-2018 to Fiscal Year 2021-2022. The project is budgeted under the Water CIP. The Gas Utility and Wastewater Utility were making annual contributions or transfers to the Water Fund for such project but there were less GIS (Geographic Information System) activities performed than budgeted.

Source: City of Palo Alto.

Reserves for the Water System

The City uses reserves to protect against contingencies and to manage other aspects of its operations and regularly assesses the adequacy of these reserves and the management practices governing their operation. The City's formal reserve management practices for its Water Utility consist of the following:

The *Reserve for Commitments* is set to an amount equal to the total remaining spending authority for all contracts in force for the Water Utility at the end of each fiscal year.

The *Reserve for Re-appropriations* is set to an amount equal to the amount of all remaining capital and non-capital budgets, if any, that will be re-appropriated to the following fiscal year in accordance with Palo Alto Municipal Code Section 2.28.090.

The *CIP Reserve* is used to manage cash flow for capital projects and acts as a reserve for capital contingencies. Staff manages the CIP Reserve according to the following practices:

a) The following guideline levels are set forth for the CIP Reserve. These guideline levels are calculated for each fiscal year of the Financial Planning Period and approved by Council resolution.

Minimum Level:	20% of the maximum CIP Reserve guideline level
Maximum Level:	Average annual (12 month) CIP budget, for 48 months of budgeted CIP expenses

b) Changes in Reserves: Staff is authorized to transfer funds between the CIP Reserve and the Reserve for Commitments when funds are added to or removed from that reserve as a result of a change in contractual commitments related to CIP projects. Any other additions to or withdrawals from the CIP reserve require Council action.

c) Minimum Level: If, at the end of any fiscal year, the minimum guideline is not met, staff shall present a plan to the City Council to replenish the reserve. The plan shall be delivered by the end of the following fiscal year, and shall, at a minimum, result in the reserve reaching its minimum level by the end of the next fiscal year. In addition, staff may present, and the Council may adopt, an alternative plan that takes longer than one year to replenish the reserve, or that does so in a shorter period of time.

d) Maximum Level: If there are funds in this reserve in excess of the maximum level staff must propose in the next Financial Plan to transfer these funds to another reserve, return the funds to ratepayers, or designate a specific use of the funds for CIP investments that will be made by the end of the next Financial Planning Period. Staff may also seek City Council to approve holding funds in this reserve in excess of the maximum level if they are held for a specific future purpose related to the CIP.

The *RSR* may be funded by action of the City Council and is intended to help manage the trajectory of future year rate increases. Withdrawal of funds from the RSR requires Council action. If there are funds in the RSR at the end of any fiscal year, any subsequent Water Utility Financial Plan must result in the withdrawal of all funds from this RSR by the end of the next Financial Planning Period. The Council may approve exceptions to this requirement, when proposed by staff to provide greater rate stabilization to customers. The RSR is a separate and distinct fund from the "Rate Stabilization Fund" authorized under the Indenture.

The *Operations Reserve* is used to manage normal variations in costs and as a reserve for contingencies. Any portion of the Water Utility's Fund Balance not included in the reserves described above will be included in the Operations Reserve unless this reserve has reached its maximum level as set forth below. Staff manages the Operations Reserve according to the following practices:

a) The following guideline levels are set forth for the Operations Reserve. These guideline levels are calculated for each fiscal year of the Financial Planning Period based on the levels of Operations and Maintenance (O&M) and commodity expense forecasted for that year in the Financial Plan.

   Minimum Level: 60 days of O&M and commodity expense

   Target Level: 90 days of O&M and commodity expense

   Maximum Level: 120 days of O&M and commodity expense

b) Minimum Level: If, at the end of any fiscal year, the funds remaining in the Operations Reserve are lower than the minimum level set forth above, staff shall present a plan to the City Council to replenish the reserve. The plan shall be delivered within six months of the end of the fiscal year, and shall, at a minimum, result in the reserve reaching its minimum level by the end of the following fiscal year. In addition, staff may present, and the Council may adopt, an alternative plan that takes longer than one year to replenish the reserve.

c) Target Level: If, at the end of any fiscal year, the Operations Reserve is higher or lower than the target level, any Financial Plan created for the Water Utility shall be designed to return the Operations Reserve to its target level within four years.

d) Maximum Level: If, at any time, the Operations Reserve reaches its maximum level, no funds may be added to this reserve. Any further increase in the Water Utility's Fund Balance shall be automatically included in the Unassigned Reserve described below.

The *Unassigned Reserve* holds any further additions to the Water Utility's Fund Balance once the Operations Reserve has reached its maximum level. If there are any funds in the Unassigned Reserve at the end of any fiscal year, the next Financial Plan presented to the City Council must include a plan to assign them to a specific purpose or return them to the Water Utility ratepayers by the end of the first fiscal year of the next Financial Planning Period. For example, if there were funds in the Unassigned Reserves at the end of Fiscal Year 2014-15, and the next Financial Planning Period is Fiscal Year 2015-16 through Fiscal Year 2020-21, the Financial Plan shall include a plan to return or assign any funds in the Unassigned Reserve by the end of Fiscal Year 2015-16. Staff may present an alternative plan that retains these funds or returns them over a longer period of time.

Approximately $9.1 million was spent on capital projects in Fiscal Year 2023-24, excluding customer connection projects funded by connection fees, the largest of which were water main replacements, AMI water meters, and water regulation station improvements. Additionally, the water fund had large one-time expenses to comply with the federal lead and copper rule and pay for vehicle replacement costs, which reduced net operating cash flow for Fiscal Year 2023-24 and contributed to additional draws on reserves.

The table below sets forth actual levels of the Water System Fund Reserves as of June 30 for the last five fiscal years.

Table 13
WATER SYSTEM FUND RESERVES
Fiscal Years 2020-21 to 2024-25
(Dollars in Thousands)

	2020-21	***2021-22***	***2022-23***	***2023-24***	***2024-25***
CIP	$ 10,707	$ 10,707	$ 6,961	$ 3,500	$ 3,500
RSR	9,070	9,069	6,069	4,000	4,000
Operations & Unassigned	20,773	14,420	7,958	7,077	16,350
Total Reserves(1)	$ 40,550	$ 34,196	$ 20,988	$ 14,577	$ 23,850

(1) Excludes Reserve for Commitments and Reserve for Re-appropriations.
Source: City of Palo Alto.

See also APPENDIX C—"COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2025."

As of June 30, 2025, the System had approximately $23.8 million in unrestricted reserve (185 days cash at hand). Additionally, in December 2025, the City engaged Baker Tilly to perform a Utility Reserve Assessment. The assessment was reviewed by City Council on June 15, 2026 and the City anticipates that it will update the Water System's reserve policies based on recommendations made in the Baker Tilly Utility Reserve Assessment.

Projected Operating Results and Debt Service Coverage

The following table is a summary of the projected operating results of the Water System for the fiscal years ending June 30, 2026, through June 30, 2031. The financial forecast represents the City's estimate of projected financial results based upon its judgment of the most probable occurrence of certain important future events. The City assessed major cost drivers and expected costs, the short-term risks, reviewed reserve guidelines, and determined the revenue requirements for the next five years. The forecast reflects growing revenue to fund the expected operating and capital expenses over the next five years. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

Table 14
WATER SYSTEM
ESTIMATED AND PROJECTED REVENUES, EXPENSES AND NET REVENUES
Fiscal Years 2025-26 through 2030-31
(Dollars in Thousands)

	2025-26[1]	*2026-27*[2]	*2027-28*	*2028-29*	*2029-30*	*2030-31*
OPERATING REVENUES:						
Sales of Water[3]	$ 58,404	$ 62,364	$ 68,227	$ 73,819	$ 78,264	$ 82,250
Service Connection Charge & Capacity Fees[4]	1,653	1,335	2,484	2,510	2,536	2,563
Other Operating Revenues and Transfers In[5]	1,080	408	418	428	439	450
Total Operating Revenues	$ 61,137	$ 64,107	$ 71,129	$ 76,757	$ 81,239	$ 85,263
NON-OPERATING REVENUES						
Interest Revenue	$ 1,035	$ 1,077	$ 1,098	$ 1,120	$ 1,143	$ 1,165
Federal Government Interest Subsidy[6]	359	-	-	-	-	-
Other Transfers In[7]	353	266	422	444	455	467
Total Non-operating Revenues	1,747	1,342	1,520	1,565	1,598	1,632
Total Revenues	$ 62,884	$ 65,449	$ 72,649	$ 78,322	$ 82,837	$ 86,896
OPERATING EXPENSES						
Purchase of Water[8]	$ 27,848	$ 29,938	$ 32,054	$ 32,788	$ 33,382	$ 34,523
Administration and General/Engineering/ Resource Mgmt/O&M[9]	18,108	21,207	22,094	22,756	23,439	24,142
Rent	2,311	2,410	2,482	2,557	2,634	2,713
Transfers Out[10]	10	525	538	426	562	513
NON-OPERATING EXPENSES						
Other Transfers Out[11]	0	960	610	610	610	610
Total Expenses	$ 48,277	$ 55,040	$ 57,778	$ 59,137	$ 60,626	$ 62,501
Net Revenues Available for Debt Service	$ 14,607	$ 10,410	$ 14,871	$ 19,185	$ 22,211	$ 24,395
2009 Water Revenue Bonds	$ 2,563	$ -	$ -	$ -	$ -	$ -
2011 Utility Revenue Refunding Bonds (Water System Portion)	656	-	-	-	-	-
2026 Water Revenue Refunding Bonds	-	1,678	1,950	1,975	2,012	2,043
Total Debt Service	$ 3,219	$ 2,028	$ 1,950	$ 1,975	$ 2,012	$ 2,043
Debt Service Coverage	4.5x	5.1x	7.6x	9.7x	11.0x	11.9x
Net Revenues After Debt Service	$ 11,388	$ 8,382	$ 12,921	$ 17,210	$ 20,199	$ 22,352
Reserve Balance As of Year End[12]						
Capital Reserve	$ 9,000	$ 11,000	$ 11,000	$ 11,000	$ 11,000	$ 13,500
Operations Reserve	16,930	12,305	9,546	9,830	12,323	15,811
RSR	4,000	3,000	2,000	1,000	-	-
Unassigned Reserve	2,738	-	-	-	-	-
Total Reserve Balance	$ 32,669	$ 26,306	$ 22,547	$ 21,830	$ 23,324	$ 29,312

[Footnotes appear on following page]

[Footnotes to Table 14]

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(1) Estimated actual.
(2) Budgeted.
(3) Sales of water for Fiscal Years 2027-28 through 2030-31 are assumed to increase as a result of rate increases described under the captions "—Water Rates, Fees and Charges—*Projected Rates*" and "—Management Discussion of Operations—*Sales Revenues*." Consumption is projected to remain constant.
(4) Service Connection Charge and Capacity Fees for Fiscal Years 2027-28 through 2030-31 are assumed to increase due to several anticipated large development projects.
(5) Other Operating Revenues and Transfers In includes reimbursements, revenue from other agencies (specifically, from Santa Clara Valley Water District for home water use reports program and Advanced Metering Infrastructure ("AMI," also known as smart meters)) and transfers from the General Benefits Internal Service Fund.
(6) Series 2009 Water Revenue Build America Bonds interest subsidy.
(7) Other Transfers In includes reimbursements from other City utilities for capital costs where the Water System is the lead utility (i.e. the Water System leads the GIS project).
(8) Purchase of Water for Fiscal Years 2027-28 through 2030-31 is assumed to increase by 5% on average annually due to SFPUC wholesale rate increases. See "—Sources of Supply—SFPUC's Hetch Hetchy Water System."
(9) Administration and General/Engineering/ Resource Mgmt/O&M for Fiscal Years 2027-28 through 2030-31 is assumed to increase by 3% annually due to inflation.
(10) Transfers Out includes payments for centralized cost (such as the parking permit fund for employee parking permit, centralized technology fund).
(11) Other Transfers Out includes the Water System's cost share of projects led by another utility (such as the electric utility leading the AMI project).
(12) See the caption "—Reserves for the Water System."
Source: City of Palo Alto.

Retiree Benefit Funding Policy

The City has taken strategic steps to address rising pension costs and long-term liabilities; including cost-sharing in labor agreements, implementing State Public Employees' Pension Reform Act (PEPRA) lower benefit plans; establishing an irrevocable Section 115 Pension Trust ("Pension Trust"); and adopting the Retiree Benefit funding Policy.

The Retiree Benefit Funding Policy is an evergreen policy that automatically renews until goals are complete, subject to modification at the City Council's direction. The policy identifies a path forward for the City to address its pension obligations on an ongoing basis, ensures prudent and proactive financial planning, and avoids significant impacts to service delivery. The Retiree Benefit Funding Policy sets the goals of reaching a 90% funded status level of CalPERS determined liability Fiscal Year 2036 and budgets 'pay go' costs, also known as Normal Cost (NC), of annual pension costs at discount rate of 5.3%, more conservative than the CalPERS rate of 6.8%.

Retirement System

This caption contains certain information relating to the California Public Employees Retirement System ("CalPERS"). The information is primarily derived from information produced by CalPERS, its independent accountants and actuaries. The City has not independently verified the information provided by CalPERS and makes no representations nor expresses any opinion as to the accuracy of the information provided by CalPERS.

The annual comprehensive financial reports of CalPERS are available on its Internet website at www.calpers.ca.gov. CalPERS makes its actuarial valuation reports and other information concerning benefits and other matters available on its website. Such information is not incorporated by reference herein. The City cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

Plan Description. Substantially all qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the "Plan") administered by the California Public Employees' Retirement System (the "CalPERS"). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all others). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The City of Palo Alto sponsors 10 rate plans (three miscellaneous and seven safety). Benefit provisions under the Plan are established by State statute and City of Palo Alto resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS' website at www.calpers.ca.gov.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 ("PEPRA") into law. PEPRA took effect January 1, 2013. Among other things, PEPRA: (1) established PEPRA which applies to all public employers and public pension plans on and after January 1, 2013 (except specific exemptions); (2) established new retirement tiers/benefits for new public employees; (3) prohibited certain cash payment from being counted as compensation; and (4) increased retirement age for all new public employees.

For fiscal year 2026-27, the estimated total employer contribution, as a percent of projected payroll is 82.41% for all employees under the Safety Plan and 37.63% for all employees under the Miscellaneous Plan.

Pending Pension Reform Legislation. Both houses of the California legislature have passed Assembly Bill 1383 (AB 1383), which would roll back certain provisions of the Public Employees' Pension Reform Act (PEPRA), including lowering the retirement age for public safety employees and permitting adjustments to the pension contribution formulas to increase the employer contribution. The bill also includes automatic increases to the pensionable compensation cap, applicable to all PEPRA employees. AB 1383 is currently pending final approval by the California Governor. If passed, AB 1383 is likely to result in significant increased pension costs to the City, of which the Water Fund pays a portion.

Benefits provided. CalPERS provides service 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 a fixed percentage of their highest annual salary formula as determined by the benefit program they participate in. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit.

The Plans' provisions and benefits in effect as of June 30, 2026, are summarized in the following table. Contribution rates are based on the Actuarial Valuation Report as of June 30, 2025.

	Safety Plan			
	Fire Fighters, Fire Chief Association, Police Officers	***Fire Fighters, Fire Chief Association***	***Police Officers, Police Management***	***Fire Fighters, Fire Chief Association, Police Officers***
Hire Date	Prior to June 8, 2012	On or after June 8, 2012	On or after Dec. 8, 2012	On or after Jan 1, 2013
Benefit formula[(1)]	3% at 55	3% at 55	3% at 50	2.7% at 57
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50	55[(1)]	55[(1)]	57[(1)]
Monthly benefit as % of eligible compensation	3%	3%	3%	2.7%
Employee contribution rate	9%	9%	9%	11.75%
Employer contribution rate as a % of payroll	82.41%	82.41%	82.41%	82.41%

	Miscellaneous Plan		
Hire Date	Prior to July 17, 2010	On or after July 17, 2010	On or after Jan 1, 2013
Benefit formula	2.7% at 55[(2)]	2% at 60[(2)]	2% at 62[(3)]
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	55[(2)]	60[(2)]	62[(3)]
Monthly benefit as % of eligible compensation[(2)]	2.70%	2.0% - 2.418%	2%
Employee contribution rate	8%	7%	6.25%
Employer contribution rate as a % of payroll	37.63%	37.63%	37.63%

(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%.
Source: CalPERS Miscellaneous Plan and Safety Plan for the City of Palo Alto Annual Valuation Report as of June 30, 2025.

Employees Covered. As of the June 30, 2025 actuarial valuation date, the following employees were covered by the benefit terms:

Description	***Miscellaneous***	***Safety Plan***
Active members	833	172
Inactive employees or beneficiaries currently receiving benefits	1,393	464
Inactive employees entitled to but not yet receiving benefits	927	133
Total	3,153	769

Source: CalPERS Miscellaneous Plan and Safety Plan for the City of Palo Alto Annual Valuation Report as of June 30, 2025.

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 Plan is 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 the employees. For the year ending in 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.

The required employer contribution is comprised of a Normal Cost component and a component equal to an amortized amount of the unfunded liability or annual Unfunded Accrued Liability ("UAL") Payment. The Normal Cost is the annual cost of service earned by active employees for the upcoming fiscal year, which is expressed as a percentage of payroll. Employer Normal Cost contribution rates may change if plan contracts are amended. PEPRA employees contribute 50% of the base total normal cost established by the plan. The annual UAL Payment is the amortized dollar amount needed to fund past service credit earned (or accrued) for members who are currently receiving benefits, active members, and for members entitled to deferred benefits, as of the valuation date. The UAL Payment is a fixed dollar annual payment that is either billed monthly or at the option of each agency may be paid in a lump sum at the beginning of each fiscal year to achieve a cost savings. The City has historically paid the annual UAL in a lump sum at the beginning of each year.

Beginning in fiscal year 2016 for pooled plans, CalPERS began collecting employer contributions for the Plan as a percentage of payroll for the normal cost portion and as a dollar amount for contributions toward the unfunded liability and side fund. According to CalPERS, this change was designed to improve long-term funding stability.

For the year ended June 30, 2025, the City's total required UAL contributions were $31,148,575 for the Miscellaneous Plan and $16,015,933 for the Safety Plan. The City's required UAL contributions in fiscal year 2025-26 were $31,719,724 for the Miscellaneous Plan and $17,945,551 for the Safety Plan, and the City has made such UAL payments. The City's required UAL contributions in fiscal year 2026-27 are estimated by CalPERS to be $30,430,626 for the Miscellaneous Plans and $19,668,377 for the Safety Plans.

Water System Share of CalPERS Plan. Salary and benefit costs of the Water System include funding of retirement benefits for employees assigned to the Water System who, as City employees, participate in the City's Miscellaneous CalPERS Plan. City employees assigned to the Water System constitute approximately 4.3% of all City employees and payments made by the City to CalPERS from Revenues amounted to approximately $2,240,089 in Fiscal Year 2024-25, or approximately 3.5% of the City's total payments to CalPERS in 2024-25. The information under this caption "—Employees' Retirement Plan – CalPERS" describes the City's overall Safety and Miscellaneous CalPERS plans; however, only the portion of the Miscellaneous CalPERS plan attributable to City employees assigned to the Water System is payable from Net Revenues.

The tables below are derived from the City's Annual Valuation Reports with valuation dates as of June 30, 2025 and delivered in August 2026 (the "2026 Reports") and show the required and projected employer contributions for the next six fiscal years. Such projections also assume that all actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period. The projected normal cost percentages in the projections below does not reflect that the normal cost will decline over time as new employees are hired into PEPRA or other lower cost benefit tiers.

The projections set forth below assume the investment return for fiscal year 2025-26 and beyond would be 6.8%. CalPERS announced a preliminary investment return of 14.8% for fiscal year 2025-26. As a result, the actual contribution requirements for the following fiscal years shown below may differ from such projections. No assurance can be provided that the City's CalPERS plan expenses will not increase significantly in the future.

Miscellaneous Risk Pool
Projected Employer Contribution

	Required Contribution	***Projected Future Employer Contributions (Assumes 6.80% Return for fiscal year 2026-27 and Beyond)***				
	2027-28	***2028-29***	***2029-2030***	***2030-31***	***2031-32***	***2032-33***
Normal Cost %	10.36%	10.1%	9.9%	9.6%	9.4%	9.2%
UAL Payment	$31,091,460	$33,033,000	$32,426,000	$31,716,000	$29,607,000	$29,134,000
Total as a % of Payroll	35.65%	36.2%	34.7%	33.3%	30.8%	29.7%
Projected Payroll	$122,931,042	$126,618,973	$130,417,542	$134,330,069	$138,359,971	$142,510,771

Source: CalPERS Miscellaneous Plan for the City of Palo Alto Annual Valuation Report as of June 30, 2025.

Safety Risk Pool
Projected Employer Contribution

	Required Contribution	*Projected Future Employer Contributions (Assumes 6.80% Return for fiscal year 2026-27 and Beyond)*				
	2027-28	***2028-29***	***2029-30***	***2030-31***	***2031-30***	***2032-33***
Normal Cost %	19.65%	19.0%	18.4%	17.8%	17.2%	16.7%
UAL Payment	$20,286,655	$21,356,000	$21,181,000	$20,959,000	$20,966,000	$20,888,000
Total as a % of Payroll	75.48%	76.1%	73.3%	70.6%	68.5%	66.3%
Projected Payroll	$36,338,610	$37,428,768	$38,551,630	$39,706,180	$40,899,425	$42,126,408

Source: CalPERS Safety Risk Pool Plan for the City of Palo Alto Annual Valuation Report as of June 30, 2025.

Net Pension Liability. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2024, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2023, rolled forward to June 30, 2024, using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to other projected contributions of all participating employers, actuarially determined.

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the City's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

City's Proportionate Share of the Net Pension Unfunded Liability (in thousands)	*1% Decrease (5.90%)*	*Current Discount Rate (6.90%)*	*1% Increase (7.90%)*
Miscellaneous plan	$ 437,682	$ 294,630	$ 176,130
Safety plan	287,167	209,856	146,120
Totals	$ 724,849	$ 504,486	$ 322,250

Source: CalPERS Miscellaneous Plan and Safety Plan for the City of Palo Alto Annual Valuation Report as of June 30, 2025.

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions. On June 25, 2012, the Governmental Accounting Standards Board approved GASB Statement No. 68 ("GASB 68") with respect to pension accounting and financial reporting standards for state and local governments and pension plans. GASB 68 states that, for pensions within the scope of the statement, a cost-sharing employer that does not have a special funding situation is required to recognize a net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions, and pension expense based on its proportionate share of the net pension liability for benefits provided through the pension plan. While the accounting standard changed financial statement reporting requirements, they do not impact funding policies of the pension systems. The audited financial statements of the City for fiscal year 2024-25 attached hereto as Appendix C reflect the application of the GASB 68.

At June 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions for the combined Plans from the following resources:

Miscellaneous Plan	***Deferred Outflows of Resources (in thousand)***
Pension contribution 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 as of June 30, 2025	$ 62,522

Safety Plan	***Deferred Outflows of Resources (in thousand)***
Pension contribution 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 as of June 30, 2025	$ 35,118

Source: The City of Palo Alto Audited Financial Statements for Fiscal Years 2024-25.

The $64.4 million reported as deferred outflows of resources related to contributions paid by the City from the year ended June 30, 2025, which is subsequent to the 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 expenses as follows:

Year Ending June 30,	***Deferred Outflows (Inflows) of Resources (in thousands)***
2026	$ 10,721
2027	32,766
2028	(4,539)
2029	(5,719)
Total:	$ 32,229

Source: The City of Palo Alto Audited Financial Statements for Fiscal Years 2024-25.

Funded Status. The tables below are derived from the 2025 Reports and show the recent history of the actuarial accrued liability, share of the pools' market value of assets, unfunded accrued liability, funded ratio, and annual covered payroll of the City's defined benefit pension plan as of the valuation dates shown.

Miscellaneous Plan
Funding History

Valuation Date	*Accrued Liability (AL)*	*Fair Value of Assets (FVA)*	*Unfunded Accrued Liability (UAL)*	*Funded Ratio*	*Annual Covered Payroll*
06/30/2016	$ 730,382,476	$ 468,702,245	$ 261,680,231	64.2%	$ 75,345,962
06/30/2017	772,526,669	511,805,893	260,720,776	66.3%	78,476,098
06/30/2018	831,958,865	547,102,617	284,856,248	65.8%	80,363,405
06/30/2019	868,716,440	574,012,871	294,703,569	66.1%	78,848,216
06/30/2020	909,429,635	592,313,289	317,116,346	65.1%	84,892,137
06/30/2021	956,179,582	720,145,626	236,033,956	75.3%	79,718,988
06/30/2022	996,201,108	655,682,370	340,518,738	65.8%	82,193,044
06/30/2023	1,037,247,281	687,419,176	349,828,105	66.3%	91,956,169
06/30/2024	1,085,448,984	745,630,783	339,818,201	68.7%	107,807,296
06/30/2025	1,126,070,057	831,439,428	294,630,629	73.8%	112,499,318

Source: CalPERS Miscellaneous Plan of the City of Palto Alto Annual Valuation Report as of June 30, 2025.

Safety Plan
Funding History

Valuation Date	*Accrued Liability (AL)*	*Fair Value of Assets (FVA)*	*Unfunded Accrued Liability (UAL)*	*Funded Ratio*	*Annual Covered Payroll*
06/30/2016	$392,911,774	$249,886,581	$143,025,193	63.6%	$ 21,268,028
06/30/2017	422,062,152	267,871,162	154,190,990	63.5%	23,485,510
06/30/2018	451,111,924	280,399,741	170,712,183	62.2%	23,613,222
06/30/2019	471,338,133	289,117,004	182,221,129	61.3%	25,488,331
06/30/2020	487,159,688	293,857,975	193,301,713	60.3%	27,097,526
06/30/2021	509,225,515	353,339,674	155,885,841	69.4%	25,745,571
06/30/2022	513,613,942	318,801,170	212,812,772	60.0%	25,004,764
06/30/2023	555,403,195	331,696,065	223,707,130	59.7%	27,941,899
06/30/2024	582,389,782	355,816,276	226,573,506	61.1%	30,132,343
06/30/2025	603,047,994	393,191,715	209,856,279	65.2%	33,254,975

Source: CalPERS Safety Risk Pool Plan for the City of Palo Alto Annual Valuation Report as of June 30, 2024.

Pension Trust

In 2017, the City established a Section 115 Pension Trust ("Pension Trust") to help address the long-term costs of its pension obligations to CalPERS. City Council approved the creation of the Pension Trust following a review of rising employer contribution rates and volatility of CalPERS investment returns, which were expected to increase the City's unfunded actuarial liability over time. The Pension Trust is administered by Public Agency Retirement Services (PARS). The City elected the PARS Pension trust Balance Index Strategy with an asset mix of equity (50%-70%), fixed income (10% to 30%) and cash (0-20%). For the year ended June 30, 2025, the City's total contributions to the Pension Trust were $87.4 million. Of this amount, $2.9 million or 3.2% was contributed by the Water Fund.

Under the City's Retiree Benefit Policy, the Pension Trust is intended to maintain a balance equal to approximately one year of required employer contributions, with amounts above that threshold available for transmission to CalPERS to help manage pension costs, reduce unfunded liability, and mitigate future spikes in employer contribution rates. As of June 30, 2025, the Pension Trust balance was approximately $100 million, compared to the fiscal year 2026 required employer contribution of about $70 million, placing the trust above the policy target. Consistent with policy, Council approved use of excess trust funds for transmission to CalPERS, beginning with a $10.0 million Additional Discretionary Payment in fiscal year 2026. Continued implementation of this policy is reflected in the fiscal year 2027 Adopted Budget through a $20.0 million Additional Discretionary Payment and use of the $6.0 million in trust funds to offset the Actuarially Determined Contribution. Savings resulting from these actions are allocated across departments and funds in proportion to their respective contributions to the Pension Trust.

Other Post-Employment Benefits

Post-Retirement Health Benefits. In addition to providing pension benefits, the City participates in the California Public Employees' Medical and Healthcare 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 are receiving a monthly pension from CalPERS. Details of benefits to retirees are noted in the following table:

The employees covered by the benefit term as of June 30, 2025 includes: 1,047 inactive employees or beneficiaries currently receiving benefits; 94 inactive employees entitled to but not yet receiving benefits; and 94 active employees. The City made benefit payments of $19.4 million in fiscal year 2024-25, $16.8 million in fiscal year 2023-24, $16.3 million in fiscal year 2022-23, and $17.8 million in fiscal year 2021-22.

Water System Share of OPEB Plan. Salary and benefit costs of the Water System include funding of other post-employment benefits for employees assigned to the Water System who, as City employees, participate in the City's OPEB Plan. City employees assigned to the Water System constitute approximately 4.3% of all City employees and payments made by the City pursuant to the OPEB Plan from Revenues amounted to $647,278 in fiscal year 2024-25, or approximately 3.9% of the City's total OPEB Plan payments in 2024-25. The information under this caption "—Other Post-Employment Benefits" describes the City's overall OPEB Plan; however, only the portion of the OPEB Plan attributable to City employees assigned to the Water System is payable from Net Revenues.

CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES

Article XIIIA

Article XIIIA of the State Constitution provides that the maximum ad valorem tax on real property cannot exceed 1% of the "full cash value," which is defined as "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment," subject to exceptions for certain circumstances of transfer or reconstruction and except with respect to certain voter approved debt. The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% per year, or decreases in the consumer price index or comparable local data, or to reflect reduction in property value caused by damage, destruction or other factors.

Article XIIIA requires a vote of two-thirds of the qualified electorate to impose special taxes, while generally precluding the imposition of any additional ad valorem, sales or transaction tax on real property. As amended, Article XIIIA exempts from the 1% tax limitation any taxes above that level required to pay debt service on certain voter-approved general obligation bonds for the acquisition or improvement of real property. In addition, Article XIIIA requires the approval of two-thirds of all members of the State Legislature to change any State laws resulting in increased tax revenues.

Under California law, any fee which exceeds the reasonable cost of providing the service for which the fee is charged is a "special tax," which under Article XIIIA must be authorized by a two-thirds vote of the electorate. Accordingly, if a portion of the City's water or wastewater user rates or Capacity Fees were determined by a court to exceed the reasonable cost of providing service, the City would not be permitted to continue to collect that portion unless it were authorized to do so by a two-thirds majority of the votes cast in an election to authorize the collection of that portion of the rates or fees. The reasonable cost of providing wastewater services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the California courts have determined that fees such as capacity fees will not be special taxes if they approximate the reasonable cost of constructing the water or wastewater capital improvements contemplated by the local agency imposing the fee. See "THE WATER SYSTEM—Water Rates, Fees and Charges."

Article XIIIB

Article XIIIB of the State Constitution limits the annual appropriations of proceeds of taxes by State and local government entities to the amount of appropriations of the entity for the prior fiscal year, as adjusted for changes in the cost of living, changes in population and changes in services rendered by the entity. User fees and charges are considered proceeds of taxes only to the extent they exceed the reasonable costs incurred by a governmental entity in supplying the goods and services for which such fees and charges are imposed.

To the extent that assessments, fee and charges collected by the City are used to pay the costs of maintaining and operating the Water System and payments due on the 2026 Bonds, the City believes that such moneys are not subject to the annual appropriations limit of Article XIIIB.

Articles XIIIC and XIIID; Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability of the local governments to levy and collect both existing and future taxes, assessments, fees, and charges. The City is a local government within the meaning of Articles XIIIC and XIIID.

Section 3 of Article XIIIC expressly extended the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. Section 3 expanded the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power was not limited by the terms of Article XIIIC to fees imposed after November 6, 1996, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any taxes, assessments or fees and charges imposed prior to November 6, 1996. "Fees" and "charges" were not expressly defined in Article XIIIC or in Senate Bill 919, the Proposition 218 Omnibus Implementation Act ("SB 919"), which was enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIIIC and Article XIIID. However, on July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil* (the "Bighorn Decision") that charges for ongoing water delivery are property-related fees and charges within the meaning of Article XIIID and are also fees or charges within the meaning of Section 3 of Article XIIIC. The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIIIC, although the water agency's governing board may then raise other fees or impose new fees without prior voter approval.

In the Bighorn Decision, the California Supreme Court stated that nothing in Section 3 of Article XIIIC authorized initiative measures that impose voter-approval requirements for future increases in fees or charges for water delivery. The California Supreme Court stated that water providers may determine rates and charges upon proper action of the governing body and that the governing body may increase a charge which was not affected by a prior initiative or impose an entirely new charge. The California Supreme Court further stated in the Bighorn Decision that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provided that the initiative power provided for in Proposition 218 "will not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the City's voters will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges.

Article XIIID defines a "fee" or "charge" as any levy other than an ad valorem tax, special tax, or assessment imposed upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A "property-related service" is defined as "a public service having a direct relationship to a property ownership." In the Bighorn Decision, the California Supreme Court held that a public water agency's charges for ongoing water delivery are fees and charges within the meaning of Article XIIID. Article XIIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, the local government's ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIIID also includes a number of limitations applicable to existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge will not exceed the funds required to provide the property-related service; (ii) such revenues will not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership will not exceed the proportional cost of the service attributable to the parcel; and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

The City believes that it has complied with the requirements of Proposition 218 with respect to the charges that it currently imposes. Such compliance included mailing of notices to affected property owners (and separately, to ratepayers) in connection with rate changes implemented subsequent to the Bighorn Decision. The City expects to continue to comply with the requirements of Proposition 218 with respect to future proposed rate increases.

In the event that proposed increased rates or charges cannot be imposed as a result of a majority protest or an initiative, such circumstances may adversely affect the ability of the City to generate revenues sufficient to pay the principal of or the interest on the 2026 Bonds.

As discussed above, Article XIIIC removes limitations on the initiative power in matters of local taxes, assessments, fees, and charges. In addition, a California court has held that utility rates are not subject to the same constitutional restrictions that are applied to the use of the initiative process for tax measures. Consequently, the voters of the City could, by future initiative, repeal, reduce, or prohibit the future imposition or increase of any local tax, assessment, fee, or charge.

While no assurance can be given that the voters of the City will not, in the future, approve initiatives which repeal, reduce or prohibit the future imposition or increase of assessments, fees, or charges, or the Utilities Department's water rates in such event, the City may set rates to service obligations payable from the Water Revenue Fund, subject to its rate adjustment procedures.

Future Initiatives

Articles XIIIA, XIIIB, XIIIC, and XIIID of the Constitution were each adopted as measures that qualified for the ballot pursuant to California's initiative process. The City cannot provide any assurances as to the effect of the implementation or judicial interpretations of such measures on the finances of the City or the Water System. From time to time other initiative measures could be adopted, which may affect the ability of the City to levy and maintain special taxes.

CERTAIN INVESTMENT CONSIDERATIONS

The ability of the Utilities Department to pay principal of and interest on the 2026 Bonds depends primarily upon the receipt of revenues from the Water System. Some of the events which could prevent the Utilities Department from receiving a sufficient amount of revenues to enable it to pay the principal of and interest on the 2026 Bonds are summarized below. The following description of investment considerations is not intended to be an exhaustive list associated with the purchase of the 2026 Bonds and the order of the investment considerations set forth below does not necessarily reflect the relative importance of the various risks.

Special Obligations

The 2026 Bonds are special limited obligations of the City payable solely from and secured by a pledge of and lien upon Net Revenues derived by the City Council from the operations of the Water System and certain other funds pledged under the Indenture. Neither the 2026 Bonds nor the obligation to pay principal of or interest thereon constitutes a debt of the City, the State or any of its political subdivisions within the meaning of any Constitutional limitation on indebtedness, or a pledge of the full faith and credit of the City. The 2026 Bonds are not secured by a pledge of the taxing power of the City. See "SECURITY FOR THE 2026 BONDS."

No assurance can be made that revenues of the Water System, estimated or otherwise, will be realized by the Utilities Department in amounts sufficient to pay the principal of and interest on the 2026 Bonds. Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of revenues realized by the Utilities Department. In addition, the realization of future revenues is subject to, among other things, the capabilities of management of the Utilities Department, the ability of the Utilities Department to provide water to its customers, and the ability of the Utilities Department to establish, maintain and collect rates and charges sufficient to pay the Operation and Maintenance Costs of the Water System and the principal of and interest on the 2026 Bonds. See "THE WATER SYSTEM — Water Rates, Fees and Charges" herein.

Reliance on Projections

Table 12 in this Official Statement contains certain assumptions and forecasts. The notes following Table 12 should be read for a discussion of certain assumptions and rationale underlying the forecasts. Any forecast is subject to uncertainties. There will usually be differences between actual and forecast results because not all events and circumstances occur as expected, and those differences may be material.

Accordingly, the projections contained in Table 12 and elsewhere in the Official Statement, and any projections that may be contained in any future certificate of the City or a consultant, are not necessarily indicative of future performance, and the City does not assume any responsibility for the failure to meet such projections. In addition, certain assumptions with respect to future business and financing decisions of the City are subject to change. No representation is made or intended, nor should any representation be inferred, with respect to the likely existence of any particular future set of facts or circumstances, and prospective purchasers of the 2026 Bonds are cautioned not to place undue reliance upon any projections or requirements for projections. If actual results are less favorable than the results projected, or if the assumptions used in preparing such projections prove to be incorrect, then the amount of Net Revenues may be materially less than expected.

Consequently, the ability of the City to make timely payments of the principal of and interest on the 2026 Bonds may be materially adversely affected.

Neither the City's independent auditors nor any other independent accountants have compiled, examined, or performed any procedures with respect to any forecasts or projection contained in the Official Statement. The City's independent auditors assume no responsibility for, and disclaim any association with, the Water System Net Revenues forecast; they have not expressed any opinion or any form of assurance on such information or its achievability, and they assume no responsibility for, and disclaim any association with, the Water System Net Revenue forecast. See "THE WATER SYSTEM — Projected Operating Results and Debt Service Coverage."

Increasing Water Rates

Although the City has covenanted pursuant to the Indenture to fix rates, subject to the approval of the City Council, for service from the Water System, and collect charges for such service, such as to provide revenues that, together with the other available funds of the Utilities Department, will be at least sufficient to pay, as the same become due, the principal of and interest on the 2026 Bonds, in addition to paying, as the same become due, the necessary expenses of operating and maintaining the Water System and all other obligations payable out of the Water Revenue Fund, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to pay the principal of and interest on the 2026 Bonds.

Rate-Setting Process Under Proposition 218

The projected operating results in Table 12 assume that rates will be increased each year during the projection period. Proposition 218, which added Articles XIIIC and XIIID to the State Constitution, affects the Utilities Department's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of majority protest or initiative, the Utilities Department might thereafter be unable to generate sufficient revenues to pay the principal and interest on the 2026 Bonds. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES—Articles XIIIC and XIIID; Proposition 218" herein.

Notwithstanding the foregoing, the City has covenanted to fix rates and collect charges for water service at a level at least sufficient to meet its debt service requirements, as set forth under "SECURITY FOR THE 2026 BONDS—Rate Covenant" herein. The Projected Operating Results in Table 12 assume that rates will be increased each year during the projection period. The current water rates set by the City and approved by City Council have been imposed in compliance with Proposition 218.

Statutory and Regulatory Compliance

Laws and regulations governing treatment and delivery of drinking water are enacted and promulgated by federal, state and local government agencies. Compliance with laws and regulations governing the treatment and delivery of drinking water may be costly, and, as more stringent standards may be enacted to protect the environment and water quality, these costs will likely increase. Existing conditions, as well as anticipated regulatory requirements, could require significant increases in capital and/or operating costs of the Utilities Department. See "THE WATER SYSTEM—Sources of Water Supply—*PFAS*."

Claims against the Water System for failure to comply with applicable laws and regulations could be significant. Such claims would be payable from the Water Revenue Fund. In addition to claims by private parties, changes in the scope and standards for public agency water systems such as the Water System also may lead to administrative orders issued by federal or State regulators. Future compliance with such orders can also impose substantial additional costs on the Water Revenue Fund. No assurance can be given that the cost of compliance with such laws, regulations and orders would not adversely affect the ability of the Water System to generate revenues sufficient to pay the principal and interest on the 2026 Bonds.

Risks Relating to the Water Supply

The Utilities Department's water supply and the cost thereof are affected by many factors, including but not limited to annual snowpack and rainfall, population growth, water use, groundwater basin quality and recharge trends, federal and State environmental rules and regulations, environmental restoration commitments, water quality, climate change, and area of origin issues. Sustained drought conditions or continued low water levels could adversely affect the Utilities Department's water supply, impact operational expenses of the Water System and demand for water services from the Water System. Additionally, any natural disaster or other physical calamity, including acts of terrorism, earthquake, earth movements, floods, extreme weather or gradual climate change, may have the effect of reducing water availability, quality and/or distribution capabilities of the Utilities Department, impair the financial stability of the Utilities Department, affect infrastructure and other public improvements and private improvements and the continued habitability and enjoyment of such private improvements thus affecting revenues of the Utilities Department through damage to the Water System and to the economy of the surrounding area.

Drought Risks. The ability of the Water System to operate effectively is affected by the water supply available to the Utilities Department. If the water supply decreases significantly, whether by drought, operation of mandatory supply restrictions, prohibitively high water costs or otherwise, Enterprise sales will diminish and revenues available to pay the debt service on the 2026 Bonds, may be adversely affected. See "THE WATER SYSTEM—Sources of Water Supply."

Future droughts could again result in reduced deliveries of water to the Utilities Department and mandatorily enforced conservation measures and other mitigations, that could have a material adverse impact on the revenues of the Water System available to pay the debt service on the 2026 Bonds.

Reliance on Water Purchased from the SFPUC. Since 1962, the City began supplying 100% of its potable water from the SFPUC. In Fiscal Year 2025, water deliveries from the SFPUC constituted 100% of the Utilities Department's total potable water supply. The Utilities Department expects to continue to purchase 100% of its potable water from the SFPUC in an average year. Material reductions in the amount of water delivered from the SFPUC to the Utilities Department may adversely affect the operations and finances of the Water System. See "THE WATER SYSTEM—Sources of Water Supply" herein and "— Environmental Rules and Regulations" below.

Environmental Rules and Regulations. Various federal and State rules and regulations and court decisions have affected and will continue to affect the amount of water available to the Utilities Department. The Utilities Department cannot predict if future federal and State rules and regulations will be enacted or if future court decisions will further restrict water deliveries to the Utilities Department and what affect such reduced water deliveries may have on the operations and finances of the Water System.

Climate Change. One of the factors that may pose a risk to the future availability of water in the City is climate change. Rising temperatures could result in earlier runoff and cause California's rivers to carry a heavier flow of water. This could possibly trigger floods which would place pressure on California levees. Rising sea levels may further impact hydrology including, without limitation, the salinity levels in estuaries such as northern California's Bay-Delta region. Such conditions may lead to the failure of levees and consequently the disruption of water flow throughout California's various water systems. Rising temperatures may also result in decreased precipitation levels that could amplify the effects of drought conditions on water supply. Finally, rising temperatures may cause a reduction in the Sierra Nevada snowpack, a major source of water in California, and may result in reduced water deliveries. The Utilities Department is unable to predict whether or when any such conditions may occur or their impact on the Utilities Department. While the Utilities Department seeks to better understand the potential impact that climate change may have on its water supply, efforts are underway to develop water resources and implement efficient water management strategies that will create a sustainable source of future water supply for the City.

Above-Normal Precipitation. Just as too little water can negatively affect the revenues of the Water System, above-normal precipitation also can negatively affect the revenues of the Water System. In years where the City receives above-normal levels of precipitation, the residents of the City do not need to purchase as much water which can lead to reduced enterprise revenues.

Seismic Activity. The City, like much of California, is subject to seismic activity that could result in interference with operation of the Water System. There are several major active fault zones transecting the County that could cause "strong ground motion" at the site of the various facilities constituting the Water System during its useful life. Those major fault zones, listed in order of proximity to the City, are the San Andreas, Hayward, Calaveras and San Gregorio faults. If there were to be an occurrence of severe seismic activity in the area of the City, there could be an interruption in the service provided by the Water System resulting in a temporary reduction in the amount of Net Revenues available to pay the principal of and interest on the 2026 Bonds when due.

Security of the Water System. Military conflicts and terrorist activities may adversely impact the operations and finances of the Water System. All critical sites are equipped with video surveillance and perimeter intrusion detection systems. These physical protection systems are monitored continuously in the Utilities Department's control room. The Utilities Department's emergency response plan is reviewed annually and updated as needed. The Utilities Department also regularly participates in exercises designed to test the ability to prepare for, respond to, recover from and mitigate the impacts of natural, man-made and technological disasters. Although the Utilities Department actively maintains these safeguards, no assurance can be given that existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the Water System to prevent a disruption of the Utilities Department's ability to deliver water to its customers.

SFPUC, the supplier of 100% of the City's potable water, has also taken actions to increase the security of its water facilities. The safety of SFPUC's water enterprise is maintained through a combination of regular inspections by SFPUC employees, electronic monitoring, and analysis of unusual incident reports. Most above-ground facilities operated and maintained by the SFPUC are controlled-access facilities with fencing, gates, closed circuit television systems and security officers at certain points. Smaller, above-ground and subterranean pumping stations operated and maintained by the SFPUC are locked with padlock or internal locking mechanisms, and most are monitored via access/intrusion alarms. Security improvements are evaluated on an ongoing basis. The electronic operations and controls have been evaluated and designed to reduce exposure using a series of technology systems enhancements and integration.

Costs of Capital Improvement Program

As described herein, the Utilities Department's CIP with respect to the Water System includes water and recycled water projects expecting to cost approximately $73.3 million between fiscal year 2027 and 2031, with annual costs ranging from approximately $11.4 million to approximately $16.7 million. The City may finance a portion of such projects as described in Table 2 under the caption "THE WATER SYSTEM—Capital Improvement Program Summary." The actual cost of constructing the various components of the capital improvements to the Water System will depend on a variety of factors, including but not limited to potential rising costs or shortages of labor or materials, the discovery of unforeseen subsurface conditions, earthquake, flood or other natural disasters, severe weather conditions, access to the financial markets or other events outside of the control of the Utilities Department. There can be no assurance that costs for construction of the capital improvements to the Water System will not significantly exceed the amounts projected by the Utilities Department.

Cybersecurity

The City relies on computers and technology to conduct City operations, including operations of the Utilities Department. As with any public sector agency, the City continually faces cyber threats including, but not limited to, hacking, viruses, malware and other attacks on City technology assets. The City maintains an active cybersecurity program which provides guidelines for proper use of its network and systems by City employees. The City coordinates with the City's IT to comply with cybersecurity protocols which includes stationing servers on-premise and an air-gapped environment with no internet access. The City also hires a SCADA Cyber Security Red Team. The City maintains multi-layer VPN, DMZ, and firewalls while also limiting access to their servers. Protection protocols also include manual override mode and disaster recovery program. The City also employes the Department of Homeland Security to conduct third-party tests on their networks. All City employees are required to participate in annual cybersecurity education and awareness training. The City requires VPN and two-factor authentication for employees. Notwithstanding the City's cybersecurity efforts, there can be no assurances that future cybersecurity incident will not materially adversely impact the City, including the Utilities Department.

Limitations on Remedies

Upon the occurrence and continuance of an event of default under the Indenture, the owners of the 2026 Bonds have limited remedies. Enforceability of the rights and remedies of the owners of the 2026 Bonds, and the obligations incurred by the City, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the Federal or State government, if initiated, could subject the owners of the 2026 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

The opinion to be delivered by Bond Counsel concurrently with the issuance of the 2026 Bonds will be subject to such limitations, and the various other legal opinions to be delivered concurrently with the issuance of the 2026 Bonds will be similarly qualified. See Appendix D.

LITIGATION

Litigation

At the time of delivery of and payment for the 2026 Bonds, the City will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the City, threatened against the City affecting the existence of the City or the titles of its officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the 2026 Bonds, the application of the proceeds thereof in accordance with the Indenture, or the collection or application of any Net Revenues provided for the payment of the 2026 Bonds, or in any way contesting or affecting the validity or enforceability of the 2026 Bonds, the Indenture, any action of the City contemplated by any of the said documents, or the collection or application of any revenues provided for the payment of the 2026 Bonds, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the City or its authority with respect to the 2026 Bonds or any action of the City contemplated by any of those documents.

Litigation Regarding Water Meter Replacement. Two lawsuits were filed against the City alleging that replacement of water meters at two residential properties in 2024 caused the plaintiffs' drinking water to be contaminated. One of the cases was settled for $7,500. The other case is currently in discovery. The plaintiff claims damages in excess of a million dollars; however, the City has received no evidence to support such an award and the City currently believes that the lawsuit lacks merit. A site inspection of the plaintiff's home is scheduled for October 1, 2026, at which point the City will learn more regarding the water quality at the plaintiff's home. The contractor that replaced the water meters is currently defending the City in the action, and is required to indemnify the City for damages caused by the water meter replacement. The City has replaced 93% of the water meters serving City water customers, with approximately 1,419 water meters remaining to be replaced. While the City does not currently believe that replacing the water meters caused more than a temporary, reasonable, and expected impact to water quality, the City cannot provide any assurance that the plaintiff will not receive a significant judgment against the City. If the plaintiff prevails in the subject litigation, other property owners may bring similar claims against the City. Most claims with respect to water meters are likely untimely and barred by the Government Claims Act.

CERTAIN LEGAL MATTERS

The validity of the 2026 Bonds and certain other legal matters are subject to the approving opinion of Jones Hall LLP, Bond Counsel to the City. A complete copy of the proposed form of Bond Counsel's opinion is contained in Appendix D attached hereto. Bond Counsel has not undertaken any responsibility for the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the 2026 Bonds and expresses no opinion relating thereto. Certain legal matters in connection with the 2026 Bonds will be passed upon for the City by the Office of the City Attorney of the City. Certain legal matters in connection with this Official Statement will be passed upon for the City by Stradling Yocca Carlson & Rauth LLP, Disclosure Counsel to the City. All of the fees of Bond Counsel and Disclosure Counsel with regard to the issuance of the 2026 Bonds are contingent upon the issuance and delivery of the 2026 Bonds.

TAX MATTERS

Federal Tax Status

In the opinion of Jones Hall LLP, San Mateo, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2026 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. Interest on the 2026 Bonds may be subject to the corporate alternative minimum tax.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Tax Code") that must be satisfied subsequent to the issuance of the 2026 Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the 2026 Bonds.

Tax Treatment of Original Issue Discount and Premium

If the initial offering price to the public at which a 2026 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public at which a 2026 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "bond premium" for purposes of federal income taxes and State of California personal income taxes.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2026 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2026 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2026 Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2026 Bonds who purchase the 2026 Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2026 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2026 Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering to the public at the first price at which a substantial amount of such 2026 Bonds is sold to the public.

Under the Tax Code, bond premium is amortized on an annual basis over the term of the 2026 Bond (said term being the shorter of the 2026 Bond's maturity date or its call date). The amount of bond premium amortized each year reduces the adjusted basis of the owner of the 2026 Bond for purposes of determining taxable gain or loss upon disposition. The amount of bond premium on a 2026 Bond is amortized each year over the term to maturity of the 2026 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized 2026 Bond premium is not deductible for federal income tax purposes. Owners of premium 2026 Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such 2026 Bonds.

California Tax Status

In the further opinion of Bond Counsel, interest on the 2026 Bonds is exempt from California personal income taxes.

Other Tax Considerations

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the 2026 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the 2026 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the 2026 Bonds, or as to the consequences of owning or receiving interest on the 2026 Bonds, as of any future date. Prospective purchasers of the 2026 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Owners of the 2026 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2026 Bonds may have federal or state tax consequences other than as described above. Other than as expressly described above, Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the 2026 Bonds, the ownership, sale or disposition of the 2026 Bonds, or the amount, accrual or receipt of interest on the 2026 Bonds. The form of Bond Counsel's opinion to be delivered on the Closing Date is attached hereto as Appendix D.

RATING

S&P Global Ratings ("S&P"), has assigned the 2026 Bonds a rating of "AAA." Such credit rating reflects only the view of such organization and any desired explanation of the meaning and significance of such credit rating, including the methodology used and any outlook thereon, should be obtained from S&P. Generally, a rating agency bases its credit rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that the rating will remain in effect for any given period of time or that any such rating will not be revised, either downward or upward, or withdrawn entirely, or a positive, negative or stable outlook announced, if, in its judgment, circumstances so warrant. Any downward revision or withdrawal or announcement of negative outlook could have an adverse effect on the market price of the 2026 Bonds. Maintenance of the rating will require periodic review of current financial data and other updating information by S&P.

CONTINUING DISCLOSURE

At the time of issuance of the 2026 Bonds, the City will execute a Continuing Disclosure Certificate (the "Continuing Disclosure Certificate"), which will provide for disclosure obligations on the part of the City. Under the Continuing Disclosure Certificate, the City will covenant for the benefit of Owners and Beneficial Owners of the 2026 Bonds to provide certain financial information and operating data relating to the City and the Water System by not later than each March 31 following the end of the City's fiscal year (which ends on June 30), commencing with the report for the 2025-26 Fiscal Year (the "Annual Reports"), and to provide notices of the occurrence of certain enumerated events (the "Listed Events"). The Annual Reports and the notices of Listed Events will be filed with the MSRB through its EMMA System. Currently the City's Annual Report is filed as part of the City's required continuing disclosure filings. See "APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants will be made in order to assist the Underwriter for the 2026 Bonds in complying with Rule 15c2-12.

Within the last five years, the City has not failed to comply in any material respect with its continuing disclosure obligations under Rule 15c2-12.

UNDERWRITING

The 2026 Bonds were sold at a competitive sale on _________, 2026. The 2026 Bonds were awarded to __________ (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase all of the 2026 Bonds at a price of $__________ (which amount represents the principal amount of the 2026 Bonds, plus a net original issue premium of $__________, less an underwriter's discount of $__________). The Underwriter may offer and sell the 2026 Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof.

MUNICIPAL ADVISOR

PFM Financial Advisors LLC (the "Municipal Advisor") has assisted the City with various matters relating to the planning, structuring and delivery of the 2026 Bonds. The Municipal Advisor has not been engaged, nor have they undertaken, to make an independent verification or assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Municipal Advisor is an independent municipal advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities.

INDEPENDENT AUDITORS

The financial statements of the Water System as of June 30, 2025 are included in this Official Statement as Appendix A. These financial statements have been audited by Macias, Gini & O'Connell LLP, Certified Public Accountants ("MGO"), as stated in their report appearing therein. MGO was not requested to consent to the inclusion of its report in Appendix A and it has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by MGO with respect to any event subsequent to the date of its report.

MISCELLANEOUS

The covenants and agreements of the City for the benefit of the Owners of the 2026 Bonds are set forth in the Indenture, and reference is made to the Indenture for a statement of the rights of the Owners of the 2026 Bonds and the covenants and obligations of the City. All references to the 2026 Bonds are qualified in their entirety to the definitive form thereof and the information with respect thereto included in the Indenture.

This Official Statement is not a contract with the Owners of any of the 2026 Bonds.

The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive, or definitive and each such summary and reference is qualified in its entirety by reference to each document, statute, report, or instrument. The capitalization of any word not conventionally capitalized, or otherwise defined herein, indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document.

Any statements in this Official Statement involving matters of opinion and all estimates, whether or not expressly so stated, are intended as such and not as representations of facts and are not to be construed as representations that they will be realized.

The City Council of the City has authorized the execution and delivery of this Official Statement by an authorized signatory of the City.

CITY OF PALO ALTO

By______________________________________

Director of Administrative Services

APPENDIX A

ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2025

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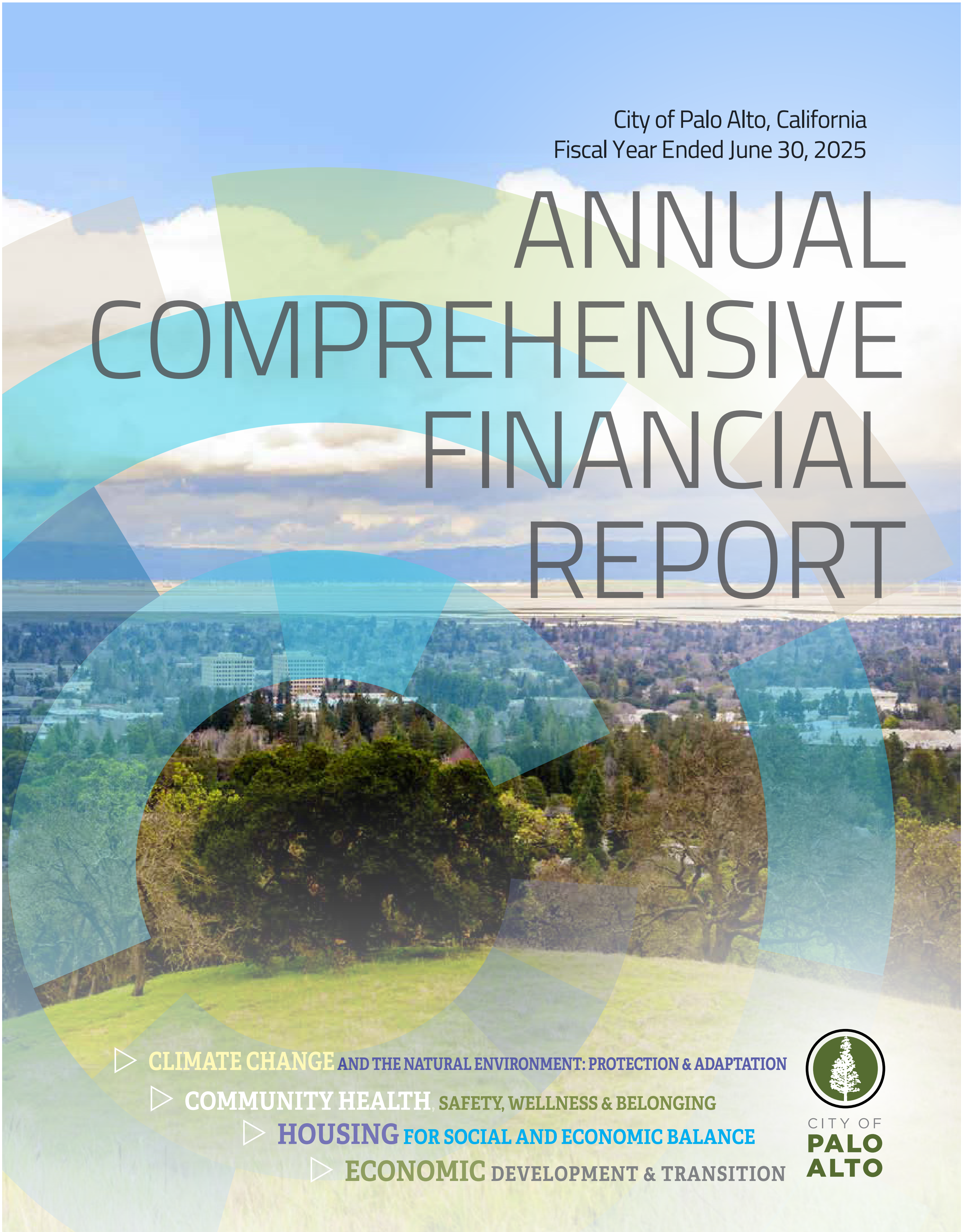

City of Palo Alto, California
Fiscal Year Ended June 30, 2025

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

CITY OF PALO ALTO

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

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OFFICE OF THE CITY MANAGER

CITY OF PALO ALTO

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

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 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

$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 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.

- 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	ED SHIKADA
Chief Financial Officer	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

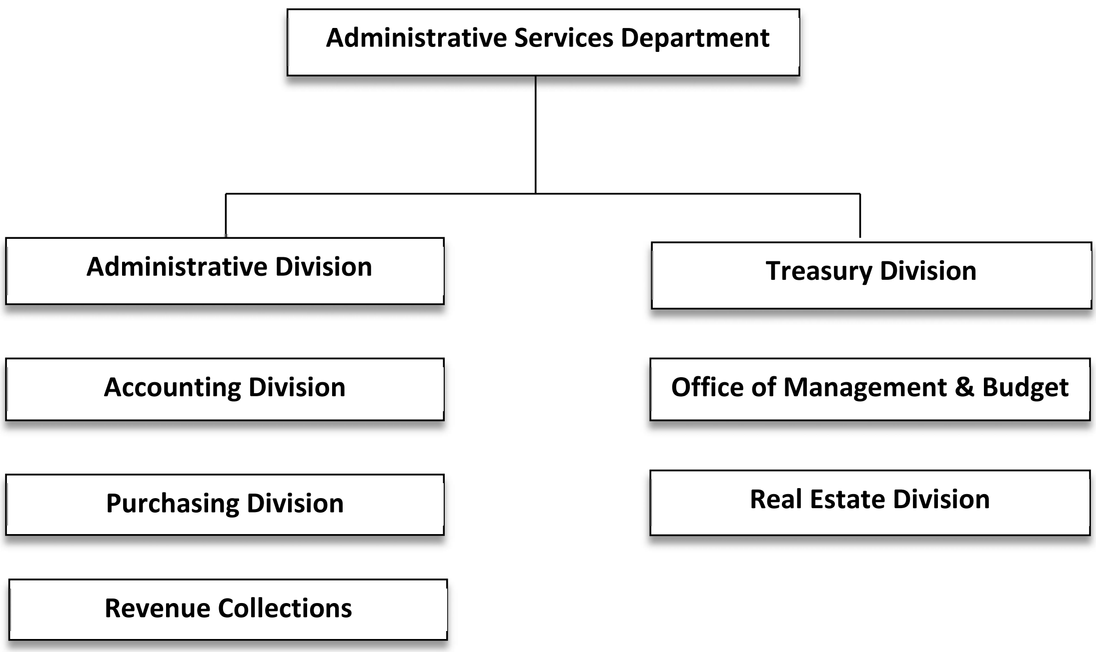
City Clerk
Mahealani Ah Yun

City Auditor
Kate Murdock

City of Palo Alto Organization

- **Palo Alto Residents**
  - **City Council**
    - **City Attorney** – Molly Stump
    - **City Manager** – Ed Shikada
      - **Administrative Services** – Lauren Lai, Director/Chief Financial Officer
      - **Human Resources** – Sandra Blanch, Director/Chief People Officer
      - **Community Services** – Kristen O’Kane, Director
      - **Planning and Development** – Jonathan Lait, Director
      - **Fire Department** – Geoffrey Blackshire, Chief
      - **Police Department** – Andrew Binder, Chief
      - **Information Technology** – Darren Numoto, Director
      - **Public Works** – Brad Eggleston, Director
      - **Library** – Gayathri Kanth, Director
      - **Utilities** – Alan Kurotori, Director
      - **Office of Emergency Services** – Kenneth Dueker, Director
      - **Office of Transportation** – Ria Hutabarat Lo, Chief Transportation Official
    - **City Auditor** – Kate Murdock
    - **City Clerk** – Mahealani Ah Yun

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. Morrill

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.

Macias Gini & O'Connell LLP

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/
	2025	**2024**	**2025**	**2024**	**2025**	**2024**	**(Decrease)**
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/
	2025	**2024**	**2025**	**2024**	**2025**	**2024**	**(Decrease)**
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**

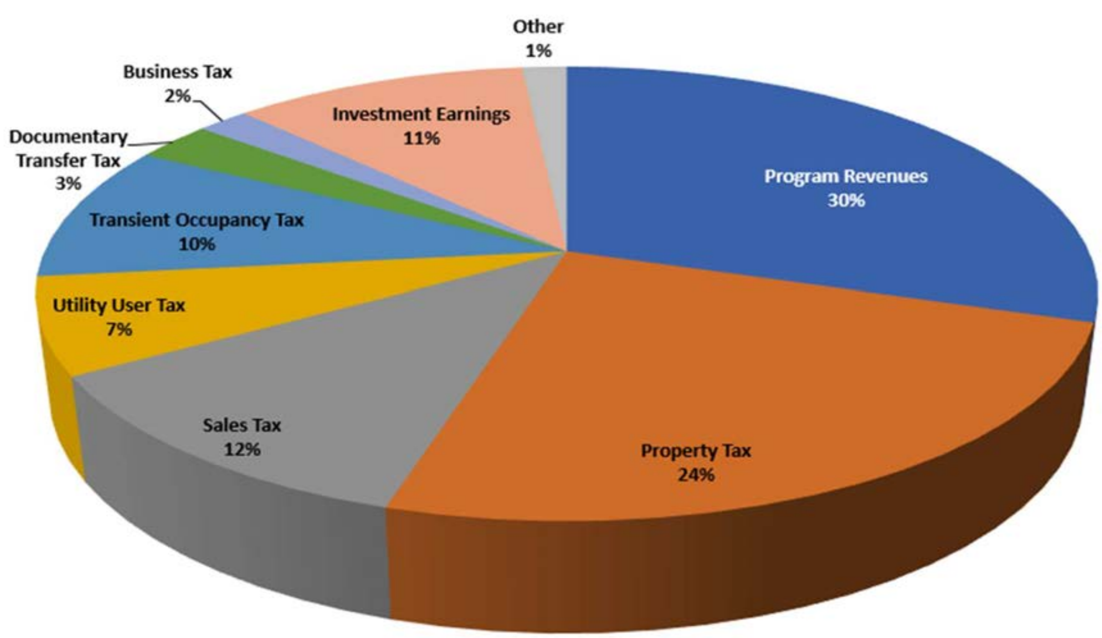
Governmental Activities – Revenues and Expenses

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.

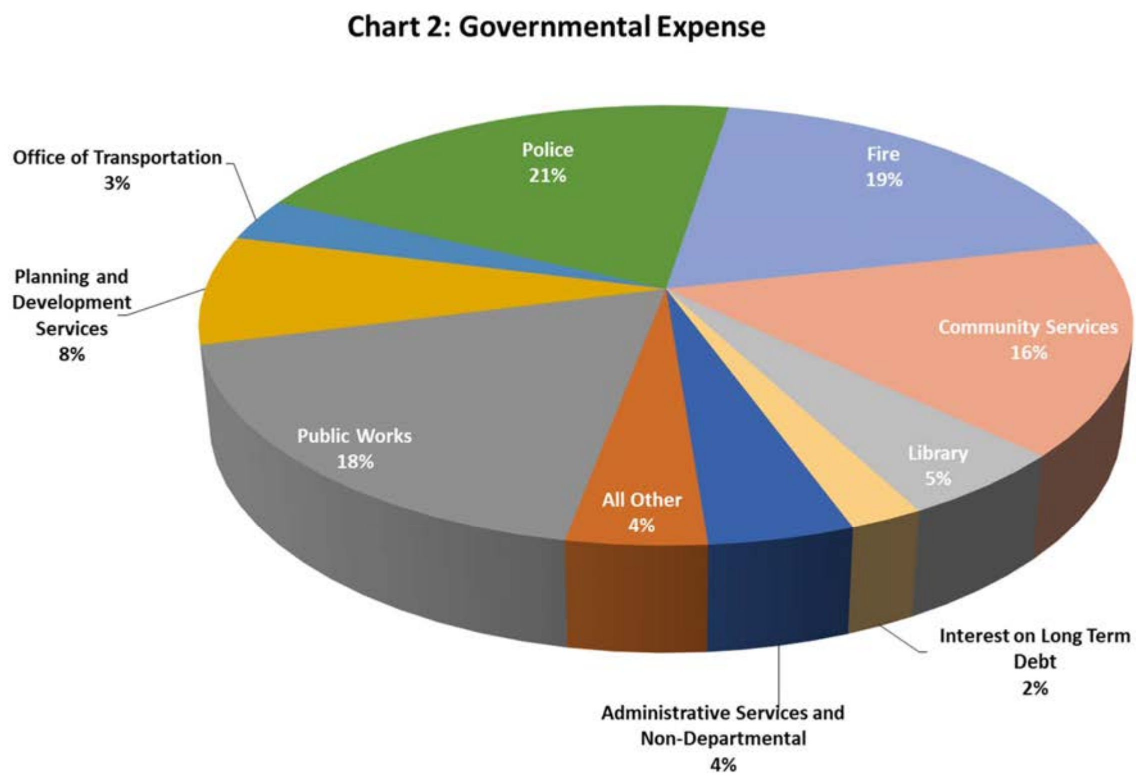
- Documentary transfer tax increased by $1.4 million, or 20.0%, due to higher total property sales activity. Despite this robust performance, documentary transfer tax remains a volatile revenue stream, sensitive to fluctuations in real estate market activity and the mix of residential versus commercial 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.



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)

	2025	2024	Increase/ (Decrease)
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
Wasterwater Collection	30.4	23.3	7.1
Wasterwater 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	**$ 496.4**	**$ 456.1**	**$ 40.3**

- 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)

Fund Name	2025	2024	Increase/ (Decrease)
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	$ 82.6	$ 55.3	$ 27.3

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)

	2025	2024	Increase/ (Decrease)
Governmental activites			
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	**$ 709.9**	**$ 703.1**	**$ 6.8**
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 syster	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	**$ 979.5**	**$ 885.6**	**$ 93.9**

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	1,254,462	1,343,459	2,597,921
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	94,112	36,965	131,077
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	762,636	391,334	1,153,970
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	8,498	1,983	10,481
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	151,467	4,079	155,546
Unrestricted (deficit)	(70,794)	187,724	116,930
Total net position	$ 577,440	$ 987,107	$ 1,564,547

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)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
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
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
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
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
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

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
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)
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
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			
	Adopted	Final	Actual, Budgetary Basis	Variance with Final Budget
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
	243,295	246,158	245,615	(543)
Charges to other funds and departments	15,096	15,096	15,688	592
Prior year encumbrances	16,093	33,469	33,469	-
Total revenues	274,484	294,723	294,772	49
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	268,033	294,699	285,594	9,105
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	6,451	24	9,178	9,154
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)	(9,692)	(12,589)	(12,589)	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, BUDGETARY BASIS	$ (3,241)	$ (12,565)	(3,411)	$ 9,154
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			(2,881)	
FUND BALANCE AT BEGINNING OF YEAR, GAAP BASIS			106,662	
FUND BALANCE AT END OF YEAR, GAAP BASIS			$ 103,781	

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
				Non-Major		
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	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 Activities- Internal Service Funds
				Non-Major		
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Totals	
$ 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
				Non-Major		Activities-
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Totals	Internal Service Funds
$ 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)

	Custodial Funds
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)	3,127
Total assets	7,384
LIABILITIES:	
Accounts payable and accruals	228
NET POSITION:	
Restricted for:	
Governmental entities	2,106
Bondholders of special assessment bonds	5,050
Total net position	$ 7,156

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)

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

See accompanying notes to the basic financial statements.

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CITY OF PALO ALTO
Index to the Notes to the Basic Financial Statements
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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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.

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.

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.

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

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.

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.

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	9,520
Beginning balance, as restated	27,284
Current year changes	1,537
Ending balance	$ 28,821
Current portion	$ 17,646

(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:

	Secured	Unsecured
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.

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

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.

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.

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	$ 462,727	$ 280,632	$ 6,967	$ 750,326

The City's cash and investments are as follows:

Cash overdraft	$ (3,052)
Investments	753,378
Total cash and investments	$ 750,326

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.

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.

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

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):

	Maturities				
Type of Investment	Less Than One Year	One to Three Years	Three to Five Years	Over Five Years	Total
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	$ 352,356	$ 140,406	$ 109,148	$ 151,468	$ 753,378

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

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.

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
		29,369	
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
		50,710	
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
		8,487	
Water Services Fund	Gas Services Fund	176	C
	Internal Service Funds	174	E, G
	Wastewater Collection Fund	176	C
		526	
Electric Services Fund	General Fund	2,007	D
	Fiber Optics Fund	102	C
	Internal Service Funds	529	G
		2,638	
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
		4,611	
	Total	$ 97,051	

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.

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.

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.

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.

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.

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.

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.

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.

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):

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

* *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):

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

NOTE 6 – LEASES AND SBITA (Continued)

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

	Governmental Activities		Business-Type Activities	
Fiscal Year Ending June 30	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	$ 11,243	$ 737	$ 5,101	$ 387

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	16,418	8,743	-	25,161
Less accumulated amortizaton:				
Equipment	(97)	(109)	-	(206)
Office Space	(1,739)	(601)	-	(2,340)
Space	(8,714)	(2,844)	-	(11,558)
Total accumulated amortization	(10,550)	(3,554)	-	(14,104)
Total governmental activities lease assets, net	$ 5,868	$ 5,189	$ -	$ 11,057
Business-type activities				
Office Space	$ 3,940	$ 4,214	$ (127)	$ 8,027
Land	78	1,051	-	1,129
Total depreciable capital assets	4,018	5,265	(127)	9,156
Less accumulated amortizaton:				
Office Space	(3,135)	(1,043)	127	(4,051)
Land	(46)	(103)	-	(149)
Total accumulated amortization	(3,181)	(1,146)	127	(4,200)
Total business-type activities lease assets, net	$ 837	$ 4,119	$ -	$ 4,956

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 or 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.

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):

	Governmental Activities		Business-Type Activities	
Fiscal Year Ending June 30	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

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

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
Governmental activities					
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					
Governmental activities					
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
Internal service fund					
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

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
Business-type activities					
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	269,092	118,233	-	(115,540)	271,785
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	1,091,620	365	(2,017)	115,540	1,205,508
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	(481,343)	(27,700)	1,648	-	(507,395)
Depreciable capital assets, net	610,277	(27,335)	(369)	115,540	698,113
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	837	4,119	-	-	4,956
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	5,405	(344)	(378)	-	4,683
Total depreciable capital assets, net	616,519	(23,560)	(747)	115,540	707,752
Business-type activities capital assets, net	$ 885,611	$ 94,673	$ (747)	$ -	$ 979,537

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):

Governmental Activities			*Business-type Activities*		
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		$	27,700
Community Services		4,664			
Library		2,364			
Internal Service Funds		2,744			
	$	23,649			

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):

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

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 Rennovation	2,950
Churchill Ave/Alma St Railrod 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	$ 189,130

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	$ 266,812

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	$ -

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 Captial Improvement Project and Refinancing Certficates of Participation, 2.2%- 4.22%, due 11/1/2047	8,970	7,985	-	205	7,780	215
2019 California Ave Parking Garage Certficates of Participation, Series A & B 2.5%-5%, due 11/1/2048	37,370	34,365	-	720	33,645	760
2021 Public Safety Building Certficates 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

	Original Issue Amount	Balance July 1, 2024	Additions	Retirements	Balance June 30, 2025	Current Portion
Business-type Activities Debt:						
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.

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 2009B 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.

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.

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%.

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.

	Governmental Activities			Business-Type Activities					
				Bonds			Direct Borrowings		
For the Year Ending June 30	Principal	Interest	Total	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	$ 183,265	$ 78,607	$ 261,872	$ 20,440	$ 6,661	$ 27,101	$ 153,844	$ 19,274	$ 173,118

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

	Initial Call Date	
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.

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.

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.

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
	4,000	-	17,440	(4,433)	-	(23,229)	15,470	1,023	(1,149)	9,122
Operations										
Supply	-	43,631	-	-	-	-	-	-	-	43,631
Distribution	16,350	2,949	-	1,316	1,698	-	-	-	-	22,313
	16,350	46,580	-	1,316	1,698	-	-	-	-	65,944
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	$ 14,297	$ 122,002	$ 31,119	$ 15,676	$ (6,081)	$ (29,209)	$ 10,819	$ 9,450	$ (2,356)	$ 165,717

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.

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	$ 18,792	$ 4,335	$ (38)	$ (1,331)	$ 7,315	$ 1,678	$ 1,386	$ 32,137

- 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.

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

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

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.

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.

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.

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
Miscellaenous Plan:			
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
Safety Plan:			
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	$ 1,620,015	$ 1,101,965	$ 518,050

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
Miscellaneous Plan:	
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
Safety Plan:	
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

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)
	$ 20,229	$ 13,000	$ 33,229

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 forumla is applied.

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	2,023

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

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	$ 285,800	$ 175,275	$ 110,525

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	$ 33,407	$ (5,809)

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):

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

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.

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	$ 34,613	$ 31,950
Current portion	$ 7,648	$ 6,894

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.

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.

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.

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.

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 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 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.

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	$ 111,431	$ 3,665	$ 2,656	$ 117,752
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	4,235	-	21	4,256
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	107,196	3,665	2,635	113,496
Total liabilities and fund balances	$ 111,431	$ 3,665	$ 2,656	$ 117,752

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	20,674	4,445	147	25,266
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	7,630	11,958	12	19,600
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	13,044	(7,513)	135	5,666
OTHER FINANCING SOURCES (USES):				
Transfers in	587	7,900	-	8,487
Transfers out	(14,184)	-	-	(14,184)
Total other financing sources (uses)	(13,597)	7,900	-	(5,697)
Change in fund balances	(553)	387	135	(31)
FUND BALANCES, BEGINNING OF YEAR	107,749	3,278	2,500	113,527
FUND BALANCES, END OF YEAR	$ 107,196	$ 3,665	$ 2,635	$ 113,496

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	$ 490	$ 7,891	$ 65,980	$ 2,797
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	500	281	58	3,066
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	(10)	-	-	(269)
Total fund balances	(10)	7,610	65,922	(269)
Total liabilities and fund balances	$ 490	$ 7,891	$ 65,980	$ 2,797

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
$ 17,218	$ 773	$ -	$ 11,513	$ 54	$ 4,715	$ 111,431
-	-	-	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)
17,218	520	(1)	11,437	54	4,715	107,196
$ 17,218	$ 773	$ -	$ 11,513	$ 54	$ 4,715	$ 111,431

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	3,745	1,214	4,492	3,327
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	-	544	320	4,491
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	3,745	670	4,172	(1,164)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	399
Transfers out	(3,780)	(512)	-	(142)
Total other financing sources (uses)	(3,780)	(512)	-	257
Change in fund balances	(35)	158	4,172	(907)
FUND BALANCES, BEGINNING OF YEAR	25	7,452	61,750	638
FUND BALANCES, END OF YEAR	$ (10)	$ 7,610	$ 65,922	$ (269)

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	3,781	3,759	(22)	1,229	1,210	(19)
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	-	-	-	2,250	1,504	746
Excess (deficiency) of revenues over (under) expenditures	3,781	3,759	(22)	(1,021)	(294)	727
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	(3,780)	(3,780)	-	(512)	(512)	-
Total other financing sources (uses)	(3,780)	(3,780)	-	(512)	(512)	-
Change in fund balances, budgetary basis	$ 1	(21)	$ (22)	$ (1,533)	(806)	$ 727
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		(35)			158	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		25			7,452	
FUND BALANCES, END OF YEAR, GAAP BASIS		$ (10)			$ 7,610	

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	5,538	1,645	(3,893)	-	-	-
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	5,787	2,180	3,607	4	4	-
Excess (deficiency) of revenues over (under) expenditures	(249)	(535)	(286)	(4)	(4)	-
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	(52)	(52)	-	-	-	-
Total other financing sources (uses)	(52)	(52)	-	-	-	-
Change in fund balances, budgetary basis	$ (301)	(587)	$ (286)	$ (4)	(4)	$ -
Adjustment to Budgetary Basis:						
Unrealized gain (loss) on investments		22			-	
Changes in interfund balances		-			-	
Current year encumbrances/reappropriations		364			-	
CHANGE IN FUND BALANCE, GAAP BASIS		(201)			(4)	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		721			3	
FUND BALANCES, END OF YEAR, GAAP BASIS		$ 520			$ (1)	

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)	-
$ (2,079)	878	$ 2,957	$ 1	1	$ -	$ (3,780)	(3,916)	$ (136)
	254			2			481	
	-			-			-	
	139			-			-	
	1,271			3			(3,435)	
	10,166			51			8,150	
	$ 11,437			$ 54			$ 4,715	

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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	$ 21	$ 38	$ 3,549	$ 57	$ 3,665
FUND BALANCES:					
Restricted:					
Debt service	$ 21	$ 38	$ 3,549	$ 57	$ 3,665

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		
	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary 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 basi	$ 1	1	$ -	$ -	5	$ 5	$ 140	285	$ 145	$ -	8	$ 8
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		$ 21			$ 38			$ 3,549			$ 57	

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 resouces - 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	2,334	5,050	7,384
LIABILITIES:			
Accounts payable and accruals	228	-	228
NET POSITION:			
Restricted for:			
Governmental entities	2,106	-	2,106
Bondholders of special assessment bonds	-	5,050	5,050
Total net position	$ 2,106	$ 5,050	$ 7,156

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	1,468	2,454	3,922
DEDUCTIONS:			
Administrative and general	7	5	12
Distribution to governmental entities	1,223	-	1,223
Debt service payments	-	2,227	2,227
Total deductions	1,230	2,232	3,462
Changes in net position	238	222	460
NET POSITION, BEGINNING OF YEAR	1,868	4,828	6,696
NET POSITION, END OF YEAR	$ 2,106	$ 5,050	$ 7,156

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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

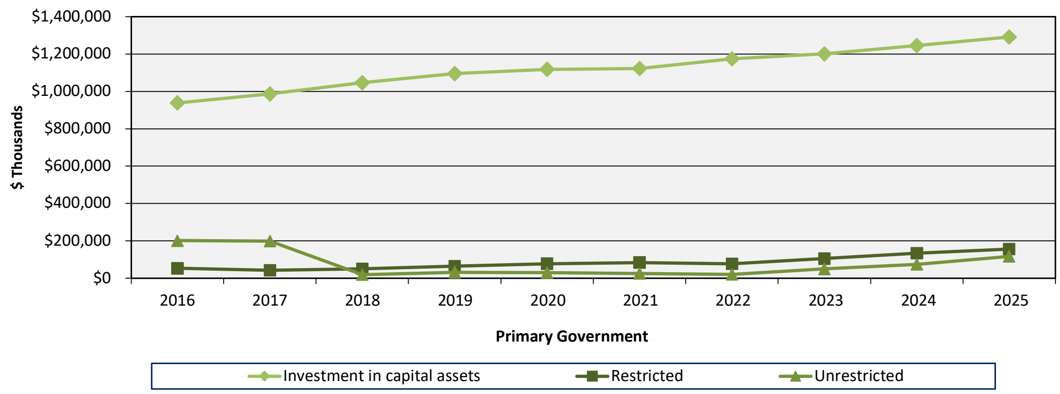
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

- 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									
PROGRAM REVENUES	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Governmental Activities										
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
Business-type Activities										
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										
Governmental Activities										
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
Business-type Activities										
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

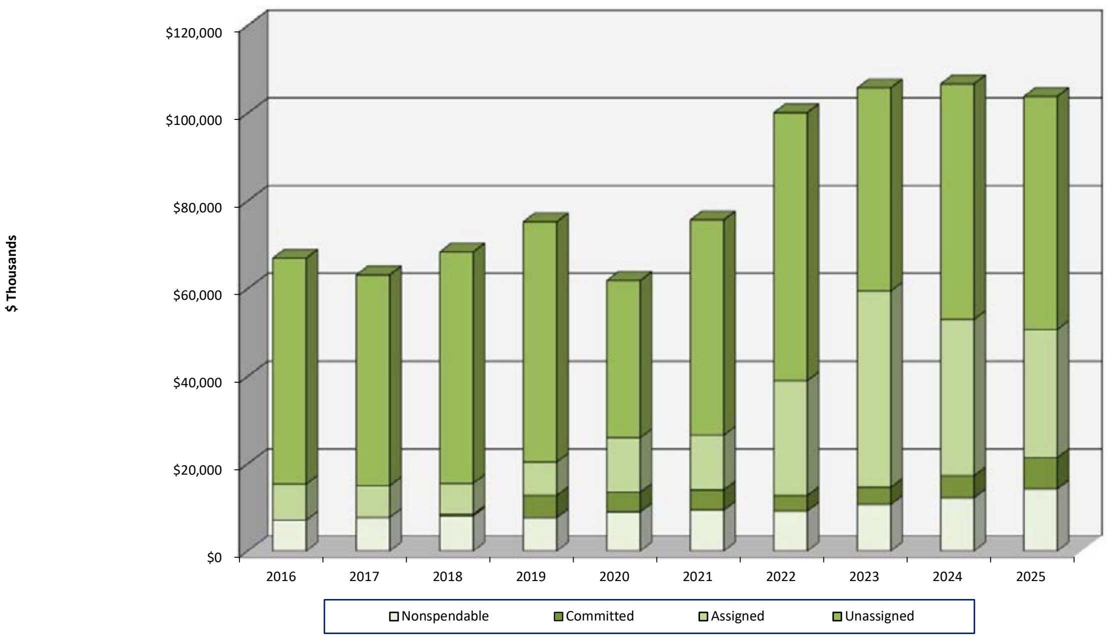
	Fiscal Year Ended June 30									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
NET (EXPENSE)/REVENUE										
Governmental Activities	$ (95,013)	$ (122,085)	$ (132,171)	$ (153,150)	$ (174,188)	$ (164,966)	$ (89,123)	$ (138,050)	$ (180,365)	$ (198,662)
Business-type Activities	23,444	38,248	47,568	59,412	52,215	39,113	25,838	59,461	72,456	96,546
Total Primary Government										
Net (Expense)/Revenue	$ (71,569)	$ (83,837)	$ (84,603)	$ (93,738)	$ (121,973)	$ (125,853)	$ (63,285)	$ (78,589)	$ (107,909)	$ (102,116)
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	142,148	138,383	151,419	175,763	164,779	147,529	140,092	180,433	215,489	234,009
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	(11,423)	(18,793)	(18,481)	(6,000)	(8,752)	(16,900)	(36,241)	(18,531)	(9,526)	(10,115)
Total Primary Government	$ 130,725	$ 119,590	$ 132,938	$ 169,763	$ 156,027	$ 130,629	$ 103,851	$ 161,902	$ 205,963	$ 223,894
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	$ 59,156	$ 35,753	$ 48,335	$ 76,025	$ 34,054	$ 4,776	$ 40,566	$ 83,313	$ 98,054	$ 121,778

Notes:

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

Source: Annual Financial Statements, Statement of Activities

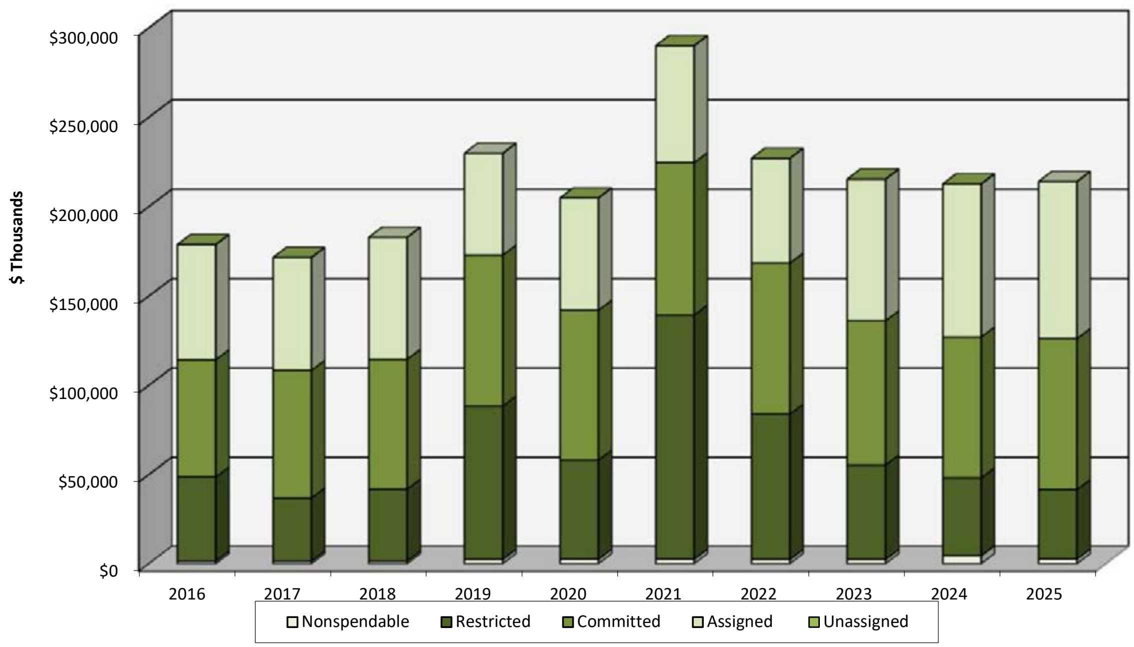
CITY OF PALO ALTO
Fund Balances of Governmental Funds (General Fund)
Last Ten Fiscal Years
(Modified accrual basis of accounting)
(Amounts in thousands)



	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	$ 178,774	$ 171,588	$ 182,825	$ 229,804	$ 204,886	$ 290,006	$ 227,039	$ 215,384	$ 212,754	$ 213,778

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:
[1]Comprised of the following departments: City Council, City Manager, City Attorney, City Clerk, City Auditor, Administrative Services, and Human Resources.
[2]The Development Services Department was formed in FY15.
[3]In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.
[4]In FY20, the City established the Office of Transportation.
[5]Represents contributions from the Stanford University Medical Center in FY18.
[6]In 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 Revenue[1]

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 Billed[1]	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

[1]Values 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

<u>Top Ten Largest Water Utility Customers (alphabetical order)</u>

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)

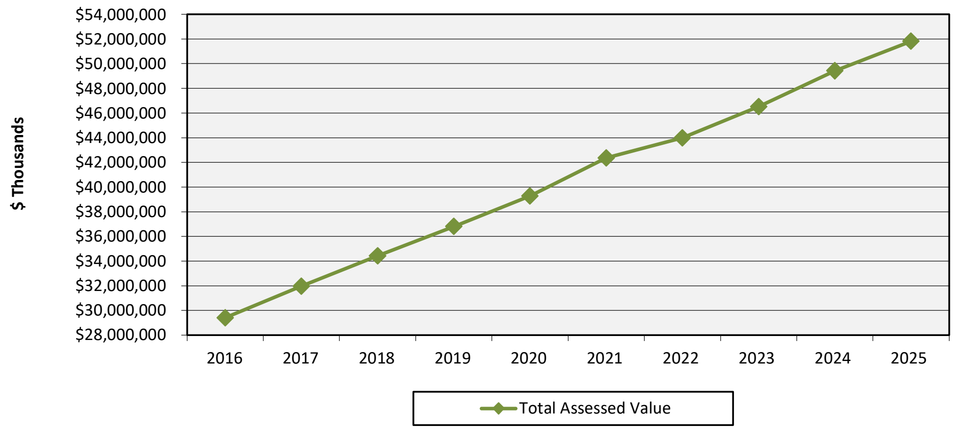
3000 Hanover LLC
City of Palo Alto
Genencor International
Lockheed Martin Space Systems
Palo Alto Unified School District
SSL (formerly Space Systems/Loral, LLC.)
Stanford Hospital & Clinic
Stanford University
Veterans Administration Hospital
VMware Inc./Broadcom Inc.

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)

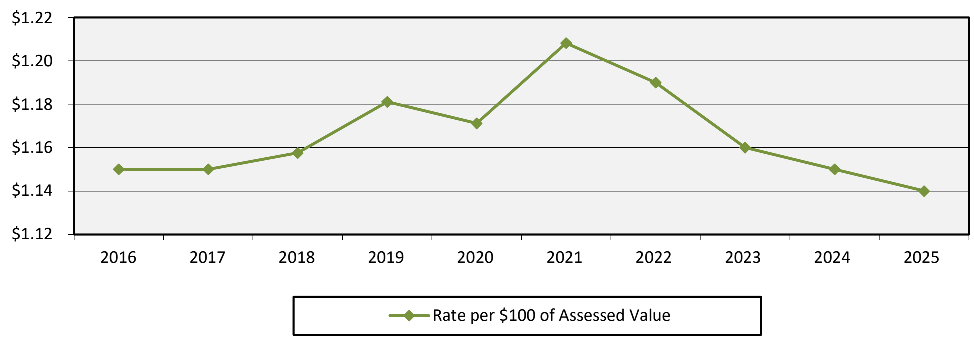


	Fiscal Year Ended June 30									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Net Local Secured Roll										
Land	$ 15,718,665	$ 17,333,969	$ 18,770,642	$ 20,386,904	$ 22,186,582	$ 24,028,178	$ 25,332,564	$ 27,448,389	$ 29,290,422	$ 30,870,753
Improvements	14,998,502	16,752,295	18,642,970	19,845,666	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
Less:										
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	$ 29,415,754	$ 31,954,381	$ 34,434,739	$ 36,801,413	$ 39,285,460	$ 42,353,926	$ 43,983,352	$ 46,522,933	$ 49,422,898	$ 51,804,757
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: [1]The 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.

[2]The 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)

		Collected within the Fiscal Year of the Levy			Total Collections to Date	
Fiscal Year Ended June 30	Total Tax Levy for FY[1]	Amount	Percentage of Levy	Collections in Subsequent Years[2]	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: [1]During 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.

[2]Effective 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)

	Fiscal Year 2025			Fiscal Year 2016		
Taxpayer	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	$ 8,923,831		18.1%	$ 4,954,834		16.7%

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 Valuation[1]	% of Total	No. of Parcels	% of Total	No. of Taxable Parcels	% of Total
Non-Residential:						
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
Residential:						
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.

[1]Local 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 Parcels[1]	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

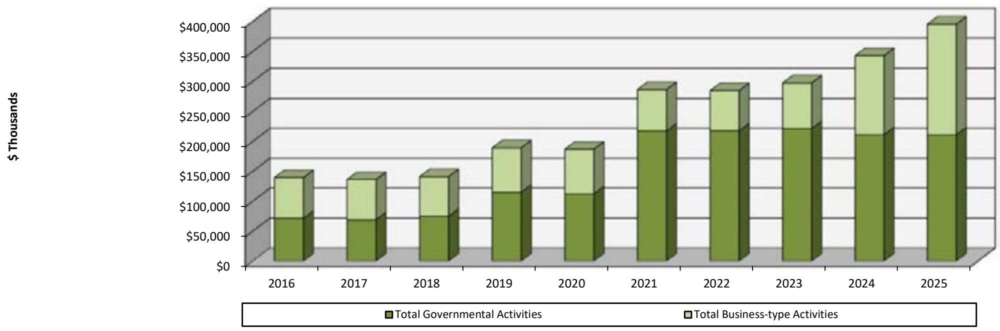
2024-2025 Assessed Valuation	No. of Taxable Parcels[1]	% of Total Parcels	Cumulative % of Total Parcels	Total Valuation	% of Total Valuation	Cumulative % of Total Valuation
$0-199,999	1,737	11.45 %	11.45 %	$ 218,484,199	0.73 %	0.73 %
$200,000-399,999	1,183	7.80	19.25	350,584,339	1.17	1.89
$400,000-599,999	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	15,169	100.00 %		$ 30,065,401,035	100.00 %	

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.

[1]Improved 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: [1]See 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.

[2]Lease and Subscription Based Information Technology Arrangement (SBITA) liabilites 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		
Direct and Overlapping Tax and Assessment Debt	**Total Debt Outstanding**	**Percentage Applicable to City of Palo Alto[1]**	**Amount Applicable to City of 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			639,674,379
Direct and Overlapping General Fund Debt			
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			$ 886,277,890

	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%	$ 914,193,890 [2]

Notes: [1]The 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.

[2]Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

[3]Includes 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]		1,942,678
Direct Debt:		
Certificates of Participation	138,550	
General Obligation bonds	44,715	
Total Direct Debt[3]	183,265	
Less: Amount of Debt Not Subject to Limit [2]	138,550	
Total Net Debt Applicable to Limit		44,715
Legal Bonded Debt Margin		$ 1,897,963

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:

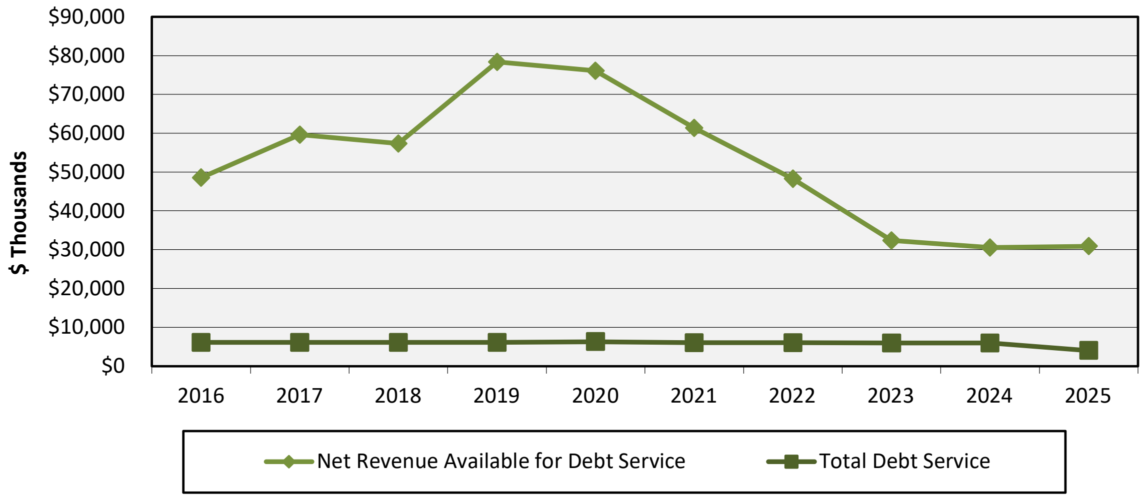
[1]California Government Code, Section 43605 sets the debt limit at 15% of the assessed value of all real and personal property of the City. Because this Code section was enacted when assessed value was 25% of market value, the limit is calculated at one-fourth, or 3.75%. This legal debt margin applies to General Obligation debt. Prior year limits have been adjusted to conform to the current year methodology.

[2]In 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.

[3]Total 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 Activities[1]
Last Ten Fiscal Years
(Amounts in thousands)

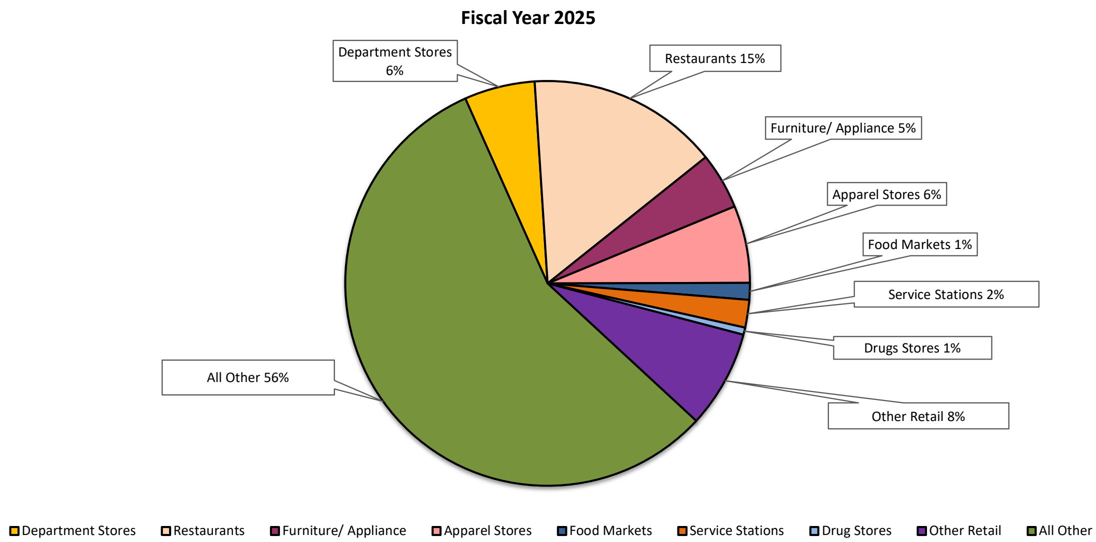


Fiscal Year	Gross Revenue	Less: Direct Operating Expenses[2]	Net Revenue Available for Debt Service	Debt Service Principal	Debt Service Interest[3]	Debt Service Total	Coverage Ratio
2016	$ 235,386	$ 186,793	$ 48,593	$ 3,230	$ 2,823	$ 6,053	8.03
2017	264,734	205,102	59,632	3,370	2,678	6,048	9.86
2018	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: [1]Airport, 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.
[2]Excludes depreciation and amortization expense.
[3]Excludes joint venture debt service and federal interest subsidy.

Source: City of Palo Alto, Accounting Department

CITY OF PALO ALTO
Taxable Transactions by Type of Business
Last Ten Fiscal Years
(Amounts in thousands)



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

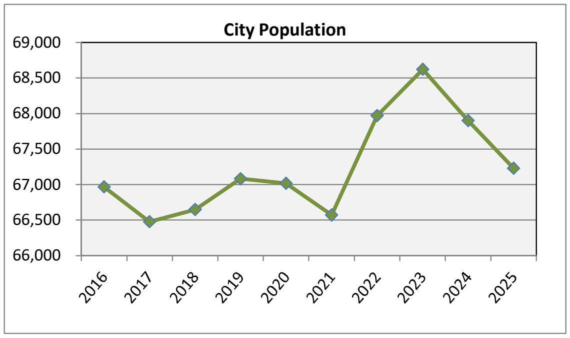
Sales Tax Rates for the Fiscal Year Ended June 30, 2025

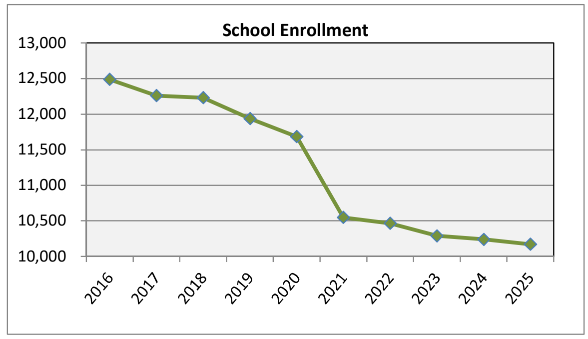
State Rate:	7.25%
Special District Tax Rates:	
Santa Clara County Transit District (SCCT)	0.50%
Santa Clara County Valley Transportation Authority (SCVT)	0.50%
Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax (SVTB)	0.125%
Santa Clara County Retail Transactions and Use Tax (SCCR)	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: [1]Decrease 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 Employers[4]
Current Year and Nine Years Ago

	FY 2025[1]			FY 2016		
Employer	**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:
[1]Principal employers and number of employees for FY25 were obtained by NOVAworks.
[2]Broadcom Inc acquired VMware in 2023.
[3]This employer has its own Zip Code (94305), and includes Stanford university, hospitals and healthcare facilities.
[4]Available 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 Years[1]

FUNCTIONS/PROGRAMS	Fiscal Year Ended June 30 2015	2016	2017	2018
Governmental activities				
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
Business-type activities				
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: [1]Ten most recent years available.
[2]According 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.
[4]The 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

	Fiscal Year Ended June 30				
	2016	2017	2018	2019	2020
FUNCTION/PROGRAM					
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

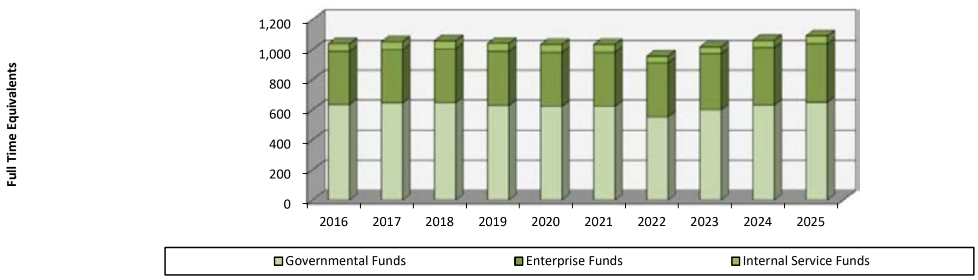
Note: [1]Beginning in FY16 park acreage is sourced from the Official City Data Set. The discrepancy between FY16 and FY17 is because FY16 numbers were derived off GIS parcels identified as parks or zoned in the Open Space Zoning District. For FY17, Council approved Parks Master Plan numbers were used. In FY22 the number was rounded up from 174 to 175.

[2]Williams 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									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Governmental Funds										
General Fund:										
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**

Notes: [1]Fleet and Facilities Management
[2]Refuse, Storm Drainage, Wastewater Treatment
[3]Electric, Fiber Optics, Gas, Wastewater Collection, Water Fund
[4]In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.
[5]In 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

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AMERICAN WITH DISABILITIES ACT

IN COMPLIANCE WITH

AMERICANS WITH DISABILITIES ACT (ADA) OF 1990,

THIS DOCUMENT MAY BE PROVIDED

IN OTHER ACCESSIBLE FORMATS.

For information contact:

Chief Building Official/ADA Coordinator

City of Palo Alto

285 Hamilton Ave, Suite 100

(650) 329-2550

ADA@paloalto.gov

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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

CITY OF PALO ALTO ▪ 250 HAMILTON AVENUE, PALO ALTO, CA 94301 ▪ 650.329.2100

APPENDIX B

DEMOGRAPHIC AND ECONOMIC INFORMATION ABOUT THE CITY

General

The City is located in northern Santa Clara County (the "County"), approximately 35 miles south of the City of San Francisco. The City has a population of approximately 69,004 as of January 1, 2026. It is part of the San Francisco Bay metropolitan area. Partly due to the presence of Stanford University, which is adjacent to the City, the City is considered the birthplace of the high technology industry that has made the County famous worldwide as Silicon Valley. The 700-acre Stanford Research Park includes prestigious and innovative high-tech leaders such as Hewlett-Packard, SAP America, Varian Medical Systems, Rivian, Tesla, Google and the Electric Power Research Institute. The City is also a major employment center, including U.S. Department of Veteran Affairs' Palo Alto Health Care System, Stanford Hospitals and Clinics, Lockheed Martin Missiles and Space, Palo Alto Medical Foundation, Stanford Shopping Center, the law offices of Wilson Sonsini Goodrich and Rosati, and the Xerox Palo Alto Research Center.

The City was incorporated in 1894. Its first Charter was granted by the State of California in 1909, and the City continues to operate as a charter city. Municipal operations are conducted under the Council-Manager form of government. The seven City Council Members are elected at large for four-year, staggered terms. The Mayor and Vice Mayor are elected annually at the first City Council meeting in January. The Mayor presides over all City Council meetings. The City Manager is responsible for the operation of all municipal functions, except the offices of the City Attorney, City Clerk, and City Auditor. These officials are appointed by, and report directly to, the City Council.

Population

The following table shows a historical comparison of the respective populations of the City, the County and the State of California since 1990.

CITY OF PALO ALTO, SANTA CLARA COUNTY, AND STATE OF CALIFORNIA
Population Comparison

Year	City of Palo Alto	Percent Change	Santa Clara County	Percent Change	State of California	Percent Change
1990	55,900	--	1,497,577	--	29,758,213	--
2000	58,598	4.8	1,682,585	12.4	33,873,086	13.8
2010	64,403	9.9	1,781,642	5.9	37,253,956	10.0
2011	65,260	1.3	1,805,407	1.3	37,552,880	0.8
2012	66,172	1.4	1,833,344	1.5	37,904,303	0.9
2013	67,145	1.5	1,861,489	1.5	38,237,859	0.9
2014	67,494	0.5	1,883,691	1.2	38,513,119	0.7
2015	67,880	0.6	1,907,380	1.2	38,810,306	0.8
2016	68,526	1.0	1,923,243	0.8	39,036,749	0.6
2017	68,820	0.4	1,930,897	0.4	39,273,915	0.6
2018	68,607	-0.3	1,936,569	0.3	39,429,439	0.4
2019	68,392	-0.3	1,936,821	0.01	39,503,656	0.2
2020	68,253	-0.2	1,936,259	-0.02	39,538,223	0.1
2021	67,802	-0.7	1,911,498	-1.3	39,380,058	-0.4
2022	67,573	-0.3	1,891,556	-1.0	39,159,480	-0.6
2023	68,078	0.7	1,906,944	0.8	39,167,274	0.01
2024	68,280	0.3	1,915,448	0.4	39,446,835	0.7
2025	68,919	0.9	1,928,029	0.7	39,646,907	0.5
2026	69,004	0.1	1,932,468	0.2	39,592,978	-0.1

Sources: U.S. Department of Commerce, Bureau of the Census (1990 and 2000); State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2011-2020, with 2010 Benchmark; State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2021-2026, with 2020 Benchmark. Sacramento, California, May 2026.

Assessed Valuations

The following table provides a five-year record of assessed valuations for the City.

CITY OF PALO ALTO
ASSESSED VALUATIONS OF TAXABLE PROPERTY
2020-21 through 2024-25
(In Thousands)

Fiscal Year	Secured Valuation (Net of Exemptions)	Public Utility	Unsecured Valuation	Total Assessed Value
2020-21	46,933,430	7,004	2,194,615	42,353,926
2021-22	49,086,493	7,004	2,232,482	43,983,352
2022-23	52,114,464	7,004	2,088,552	46,522,933
2023-24	55,128,970	7,004	2,331,567	49,422,898
2024-25	57,741,861	7,004	2,461,562	51,804,757

Source: City of Palo Alto, Annual Comprehensive Financial Report 2024-25.

The following two tables set out the amounts of property tax collected in the City and the ten largest property-taxpayers in the City, respectively.

CITY OF PALO ALTO
TEN LARGEST PROPERTY OWNERS
Fiscal Year ending June 30, 2025
(In Thousands)

Company	Assessed Property Valuation
Leland Stanford Jr University	$7,398,938
Google Inc.	385,453
ARE-San Francisco 80 LLC	312,011
ARE-San Francisco 69 LLC	153,668
395 Page Mill LLC	131,970
Park Village Peninsula LLC	130,744
Palo Alto Tech Center LLC	121,332
KRE El Camino Real Owner LLC	109,941
M10 Dev LLC	89,833
SI 45 LLC	89,941

Source: City of Palo Alto, Annual Comprehensive Financial Report 2024-25.

Employment

The City is home to a strong mix of large, medium and small firms. The City employment opportunities are much sought after and include the following: education at Stanford University, high technology at the Stanford Research Park, and health care at two medical facilities of national stature.

The largest employers in the City of Palo Alto as of June 30, 2025, are as follows:

CITY OF PALO ALTO
TEN LARGEST EMPLOYERS
Fiscal Year ending June 30, 2025

Employer	Number of Employees
Stanford (University and Healthcare)	18,000
Broadcom Inc. (VMware Inc)	2,781
Varian Medical Systems	1,710
Hewlett-Packard Company	1,632
Veteran's Affairs Palo Alto Health Care System	1,323
Wilson Sonsini Goodrich Rosati	1,100
City of Palo Alto	1,092
Roche Palo Alto	1,050
Brocade Communications Systems LLC	800
Workday, Inc.	714

Source: ReferenceUSA.com & Palo Alto Weekly, as published in City of Palo Alto Annual Comprehensive Financial Report 2025-25.

Due to the nature of local industry, with its heavy emphasis on electronics, aerospace and research, Santa Clara has attracted many professional people and industrial workers possessing skills well above the average.

The Santa Clara Labor Market, as defined by the State Employment Development Department, includes all cities within Santa Clara County. This area is a highly developed industrial, research, and educational center of employment for a labor force that ranks well above the average in educational attainment and income. The following table presents the annual average wage and salary employment figures by industry classification for the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area for the years 2021 through 2025.

According to the California Employment Development Department, the County's unemployment rate was 4.2% in 2024, down from 5.0% in 2021. The following table sets forth certain information regarding employment in the San Jose-Sunnyvale-Santa Clara MSA from calendar year 2021 through 2024, as well as certain information for calendar year 2025 as of March 2025.

SAN JOSE-SUNNYVALE-SANTA CLARA MSA
(San Benito and Santa Clara Counties)
INDUSTRY EMPLOYMENT & LABOR FORCE - BY ANNUAL AVERAGE
March 2025 Benchmark

	2021	2022	2023	2024	2025
Civilian Labor Force	1,020,000	1,043,000	1,056,200	1,057,600	N/A
Civilian Employment	969,000	1,013,300	1,018,100	1,013,100	N/A
Civilian Unemployment	51,000	29,700	38,100	44,400	N/A
Unemployment Rate	5.0%	2.9%	3.6%	4.2%	N/A
Total Farm	5,000	4,800	4,700	4,900	5,000
Total Nonfarm	1,097,700	1,151,000	1,154,100	1,150,600	1,158,200
Goods Producing	177,500	187,100	185,200	179,800	180,200
Mining, Logging and Construction	51,900	54,000	54,100	53,400	52,700
Construction	51,700	53,800	53,900	53,200	52,500
Manufacturing	125,700	133,200	131,100	126,400	127,500
Trade, Transportation and Utilities	117,200	119,200	119,400	117,100	117,000
Information	107,100	106,000	97,700	94,800	97,000
Financial Activities	38,400	38,100	37,800	36,700	36,700
Professional and Business Services	284,100	295,700	290,400	282,800	277,200
Private Education and Health Services	178,400	187,000	197,100	208,600	217,400
Leisure and Hospitality	79,000	96,700	101,900	103,100	103,000
Other Services	22,800	25,400	26,500	27,300	28,000
Government	93,300	95,800	98,200	100,400	101,700
Total All Industries[1]	1,102,800	1,155,800	1,158,800	1,155,500	1,163,100

(1) Totals may not add due to independent rounding.
Source: California Employment Development Department, Labor Market Information Division.

CITY OF PALO ALTO
AVERAGE ANNUAL CIVILIAN LABOR FORCE
EMPLOYMENT AND UNEMPLOYMENT
Calendar Years 2019-2023

Year	Labor Force	Employment	Unemployment Number	Rate
2019	33,800	33,000	700	2.2%
2020	32,000	30,600	1,400	4.3
2021	32,000	31,000	1,100	3.3
2022	32,900	32,200	800	2.3
2023[1]	33,300	32,200	1,100	3.2

(1) Most recent available reported data.
Source: California Employment Development Department.

Construction Activity

The following table reflects the history of building permit valuation for the City from 2020 to 2024.

CITY OF PALO ALTO
BUILDING PERMITS AND VALUATION
(Dollars in Thousands)

	2020	*2021*	*2022*	*2023*	*2024*
Valuation					
Residential	$ 87,620	$ 76,007	$ 94,879	$ 172,367	$ 139,375
Non-Residential	30,278	60,811	86,166	286,698	173,286
Total	$ 117,898	$ 136,818	$ 181,045	$ 459,065	$ 312,661
Units					
Single Family	68	114	133	49	57
Multi Family	8	2	2	208	125
Total	76	116	135	257	182

Note: Totals may not add due to independent rounding.
Source: Construction Industry Research Board: "Building Permit Summary."

Personal Income

The following table sets forth certain yearly median household income for the City, the County, the State of California, the United States. The median residential bill representing only 0.66% of median household income.

CITY OF PALO ALTO, COUNTY OF SANTA CLARA,
STATE OF CALIFORNIA AND UNITED STATES
Median Household Income

Year	*Palo Alto*	*Santa Clara County*	*California*	*United States*
2020	174,003	130,890	78,672	64,994
2021	195,781	141,562	84,907	69,717
2022	179,707	150,839	91,551	74,755
2023	184,068	154,954	95,521	77,719
2024	228,517	168,154	100,149	81,604

Source: U.S. Census Bureau, American Community Survey (ACS)

Commercial Activity

Taxable sales in the City of Palo Alto exceed $2.3 billion annually. The following summary shows the annual volume of taxable sales within the City since 2021. During 2025, retail sales totaled $1,806,145 and total taxable sales reached $2,610,627.

The following table shows annual sales tax revenues for the City for the last five years. The latest full-year data available from the State is for calendar year 2025.

CITY OF PALO ALTO
TAXABLE TRANSACTIONS
($000s)

	2021	2022	2023	2024	2025
Building Material and Garden Equipment and Supplies Dealers	19,998	19,113	21,913	43,415	49,854
Clothing and Clothing Accessories Stores	290,294	308,260	346,577	358,174	419,057
Food and Beverage Stores	36,110	40,936	40,726	42,146	43,136
Food Services and Drinking Places	309,524	406,737	450,314	479,821	514,580
Gasoline Stations	53,667	77,684	77,981	73,701	66,383
General Merchandise Stores	108,223	122,250	128,349	141,114	151,199
Home Furnishings and Appliance Stores	74,951	74,182	63,658	70,085	78,732
Motor Vehicle and Parts Dealers	296,978	221,805	213,841	220,801	354,514
Other Retail Group	142,329	136,738	133,214	135,560	128,687
All other outlets	1,123,428	1,418,888	1,511,650	1,350,629	804,481
Total Retail and Food Services	1,332,076	1,407,710	1,476,578	1,564,822	1,806,145
Total All Outlets	2,455,505	2,826,599	2,988,228	2,915,452	2,610,627

Source: California Department of Tax and Fee Administration.

Transportation

The City is served by the Bayshore Freeway (U.S. Highway 101), which runs southeast from San Francisco to Los Angeles and is the major freeway connecting San Francisco and San Jose; Highway 84 - the Dumbarton Bridge and Highway 92, the Hayward-San Mateo Bridge; and Interstate 280, which runs north/south to San Francisco and State Highway 82. These freeways link the City to all parts of northern California.

Air transportation is available at both the San Francisco International Airport, approximately 40 miles to the north, and the San Jose Airport, approximately 20 miles to the south. Rail service is provided by Union Pacific Railroad, on a north/south track linking San Jose and San Francisco, and Cal Train commuter service to Gilroy and San Francisco.

Within the City, commuter rail transportation is conveniently located and the Palo Alto stop is one of the most used in the CalTrain system. Alternative transportation options include numerous bike paths throughout the City and an internal shuttle service is also available.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE OF TRUST

Certain provisions of the Indenture are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.

Definitions

"Authorized Investments" means any of the following, but only to the extent that the same are acquired at Fair Market Value, which at the time of investment are legal investments under the laws of the State of California and permitted under the City's investment policy for the moneys proposed to be invested therein:

(a) Federal Securities;

(b) senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, and obligations of the Resolution Funding Corporation (REFCORP);

(c) U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks (including the Trustee and its affiliates) which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing no more than 360 days after the date of purchase, provided that ratings on holding companies are not considered as the rating of the bank;

(d) commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P, and which matures not more than 270 days after the date of purchase;

(e) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including any such money market fund from which the Trustee or its affiliates receive fees for services to such fund;

(f) pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (i) which are rated, based upon an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's and S&P or any successors thereto; or (ii)(A) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (a) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (B) which escrow is sufficient, as verified by a nationally recognized Independent Certified Public Accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate;

(g) general obligations of states with a rating of at least "A2/A" or higher by both Moody's and S&P;

(h) any investment agreement with, or guaranteed by, a financial institution the long-term unsecured obligations or the financial strength of which is rated A or better by S&P at the time of initial investment;

(i) the Local Agency Investment Fund maintained by the State of California, to the extent any investments of moneys held by the Trustee may be made and withdrawn directly by, and in the name of, the Trustee; and

(j) the California Asset Management Program (CAMP).

"Authorized Official" means the City Manager, Assistant City Manager, Director of Administrative Services, or any other officer of the City duly authorized by the Council for that purpose.

"Bond Registration Books" means the books maintained by the Trustee for the registration and transfer of ownership of the 2026 Bonds.

"Bonds" the 2026 Bonds at any time Outstanding under the Indenture.

"Bond Year" means the twelve-month period beginning on June 2 in each year and ending on the following June 1 except that the first Bond Year shall begin on the Closing Date.

"Business Day" means any day other than a Saturday, Sunday or a day on which the Trustee is authorized by law to remain closed.

"Certificate of the City" means a certificate in writing signed by an Authorized Official.

"Charges" means fees, tolls, assessments, rates and rentals prescribed by the Council for the services and facilities of the Water System furnished by the City.

"City" means the City of Palo Alto, a chartered city and municipal corporation organized and existing under the Constitution and laws of the State, and any successor thereto.

"Closing Date" means the date upon which there is an exchange of the 2026 Bonds for the proceeds representing the purchase of such 2026 Bonds by the Original Purchaser.

"Debt Service" means, as of any date, with respect to the 2026 Bonds and any Parity Debt and, in the case of the additional debt tests, any Parity Debt that is proposed to be outstanding, the aggregate amount of principal and interest scheduled to become due (either at maturity or by mandatory redemption), on the 2026 Bonds or Parity Debt, calculated with the following assumptions:

a. Principal payments (unless a different subdivision of this definition applies for purposes of determining principal maturities or amortization) are made in accordance with any amortization schedule published for such principal, including any minimum sinking fund payments;

b. Interest on a variable rate Parity Debt that is not subject to a swap agreement and that is issued or will be issued as a tax-exempt obligation under federal law, is the average of the SIFMA Municipal Swap Index, or its successor index, during the 24 months preceding the date of such calculation;

c. Interest on a variable rate Parity Debt that is not subject to a swap agreement and that is issued or will be issued as a taxable obligation under federal law, is the average of SOFR, or its successor index, during the 24 months preceding the date of such calculation;

d. Interest on a variable rate Parity Debt that is subject to a swap agreement is the fixed swap rate or cap strike rate, as appropriate, if the variable rate has been swapped to a fixed rate or capped pursuant to an interest rate cap agreement or similar agreement;

e. Interest on a fixed rate Parity Debt that is subject to a swap agreement such that all or a portion of the interest has been swapped to a variable rate shall be treated as variable rate debt under subdivisions (b) or (c) of this definition of Debt Service;

f. Payments of principal and interest on a Parity Obligation are excluded from the calculation of Debt Service to the extent such payments are to be paid from amounts then currently on deposit with a trustee or other fiduciary and restricted for the defeasance of such Parity Obligations;

g. If 25% or more of the principal of a Parity Debt is not due until its final stated maturity, then principal and interest on that Parity Debt may be projected to amortize over the lesser of 30 years or the useful life of the financed asset, and interest may be calculated according to subdivisions (b)-(e) of this definition of Debt Service, as appropriate.

"Debt Service Fund" means the fund by that name established and held by the Trustee for the 2026 Bonds.

"Defeasance Obligations" means (a) cash, (b) non-callable direct obligations of the United States of America ("Treasuries"), (c) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated or (d) pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively (or any combination thereof).

"Depository" means (a) initially, DTC, and (b) any other Securities Depositories acting as Depository pursuant to the Indenture.

"Depository System Participant" means any participant in the Depository's book-entry system.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

"Federal Securities" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America); and

(b) obligations of any department, agency or instrumentality of the United States of America the timely payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America.

"Fiscal Year" means the period commencing on July 1 of each year and terminating on the next succeeding June 30.

"Gross Revenues" means, for any period of computation, all gross charges received for, and all other gross income and revenues derived by the City from, the ownership or operation of the Water System or otherwise arising from the Water System during such period, including but not limited to (a) all Charges received by the City for use of the Water System, (b) all receipts derived from the investment of funds held by the City or the Trustee under the Indenture, (c) transfers from any Rate Stabilization Fund into the Water Revenue Fund, and (d) all moneys received by the City from other public entities whose inhabitants are served pursuant to contracts with the City. Gross Revenues for a period of computation shall not include amounts deposited into the Rate Stabilization Fund during such period of computation, but only to the extent such deposits are made from amounts that would otherwise constitute Gross Revenues that were received by the City during such period of computation.

"Improvement" means any addition, extension, improvement, equipment, machinery or other facilities to or for the Water System.

"Independent Certified Public Accountant" means any certified public accountant or firm of such accountants appointed and paid by the City, and who, or each of whom-

(a) is in fact independent and not under domination of the City;

(b) does not have any substantial identity of interest, direct or indirect, with the City; and

(c) is not and no member of which is connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

"Information Services" means in accordance with then-current guidelines of the Securities and Exchange Commission, the Electronic Municipal Market Access System (referred to as "EMMA"), a facility of the Municipal Securities Rulemaking Board (at http://emma.msrb.org), or such service or services as the City may designate in a certificate delivered to the Trustee.

"Interest Payment Date" means June 1 and December 1 in each year, beginning December 1, 2026.

"Interest Requirement" means, as of any particular date of calculation, the amount equal to any unpaid interest then due and payable, plus an amount which will on the next succeeding Interest Payment Date be equal to the interest to become due and payable on the 2026 Bonds on such next succeeding Interest Payment Date.

"Maintenance and Operation Costs" means the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Water System, calculated in accordance with sound accounting principles, including the cost of supply of water, gas and electric energy under contracts or otherwise, the funding of reasonable operating reserves, and all reasonable and necessary expenses of management and repair and other expenses to maintain and preserve the Water System in good repair and working order, and including all reasonable and necessary administrative costs of the City attributable to the Water System and the 2026 Bonds, such as salaries and wages and the necessary contribution to retirement of employees, overhead, insurance, taxes (if any), expenses, compensation and indemnification of the Trustee, and fees of auditors, accountants, attorneys or engineers, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Indenture or any Parity Debt Instrument, but excluding depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

"<u>Moody's</u>" means Moody's Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors or assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"<u>Net Proceeds</u>" means the gross proceeds from the sale of property or insurance or condemnation award with respect to which that term is used remaining after payment of all expenses (including attorneys' fees and any extraordinary expenses of the Trustee) incurred in the collection of such gross proceeds.

"<u>Net Revenues</u>" means, with respect to the Water System, for any period of computation, the amount of the Gross Revenues received from the Water System during such period, less the amount of Maintenance and Operation Costs of the Water System becoming payable during such period.

"<u>Original Purchaser</u>" means the first purchaser of the 2026 Bonds from the City.

"<u>Outstanding</u>", when used as of any particular time with reference to 2026 Bonds, means (subject to the provisions of the Indenture) all 2026 Bonds theretofore executed, issued and delivered by the City under the Indenture except -

(a) 2026 Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) 2026 Bonds paid or deemed to have been paid within the meaning of the discharge provisions of the Indenture; and

(c) 2026 Bonds in lieu of or in substitution for which other 2026 Bonds shall have been executed, issued and delivered by the City pursuant to the Indenture.

"<u>Owner</u>" or **"<u>Bond Owner</u>"** or **"<u>Bondowner</u>",** when used with respect to any 2026 Bond, means the person in whose name the ownership of such Bond shall be registered on the Bond Registration Books.

"<u>Parity Debt</u>" means all bonds, notes or other obligations (including without limitation long-term contracts, loans, sub-leases or other legal financing arrangements) of the City payable from and secured by a pledge of and lien upon any of the Net Revenues, issued or incurred pursuant to the Indenture0.

"<u>Parity Debt Instrument</u>" means the resolution, trust indenture or installment sale agreement adopted, entered into or executed and delivered by the City, and under which Parity Debt is issued.

"<u>Principal Installment</u>" means with respect to any particular Principal Installment Date, an amount equal to the sum of (i) the aggregate principal amount of Outstanding Serial Bonds payable on such Principal Installment Date (but not including Sinking Fund Installments) and (ii) the aggregate of Sinking Fund Installments with respect to all Outstanding Term Bonds payable on such Principal Installment Date.

"<u>Principal Installment Date</u>" means the date on which Principal Installments are required to be made pursuant to the Indenture.

"**<u>Rate Stabilization Fund</u>**" has the meaning given that term in the Indenture**.**

"**Record Date**" means, with respect to the 2026 Bonds, the fifteenth (15th) calendar day of the month immediately preceding an Interest Payment Date.

"**Redemption Account**" means the Account by that name established and held by the Trustee pursuant to the Indenture.

"**Redemption Price**" means, with respect to any 2026 Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to the Indenture.

"**Refunding Law**" has the meaning given that term in the Recitals.

"**Request of the City**" means a request in writing signed by an Authorized Official.

"**S&P**" means Standard & Poor's Corporation, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors or assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

"**Serial Bonds**" means all 2026 Bonds other than Term Bonds.

"**Sinking Fund Installment**" means, with respect to any particular date, the amount of money required by the Indenture to be paid by the City on such date toward the retirement of any particular Term Bonds prior to their respective stated maturities.

"**SOFR**" means the Secured Overnight Financing Rate.

"**State**" means the State of California.

"**Tax Code**" means the Internal Revenue Code of 1986 as in effect on the date of issuance of the 2026 Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of issuance of the 2026 Bonds, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Tax Code.

"**Term Bonds**" means such 2026 Bonds which are payable prior to their stated maturity by operation of Sinking Fund Installments.

"**Trust Office**" means the corporate trust office of the Trustee at St. Paul, MN, or such other or additional offices as may be specified to the City by the Trustee in writing.

"**Trustee**" means U.S. Bank Trust Company, National Association, appointed by the City to act as trustee under the Indenture, and its assigns or any other corporation or association which may at any time be substituted in its place, as provided in the Indenture.

"**Water Revenue Fund**" means the Fund by that name established and held by the City.

"**Water System**" means the existing water system of the City, comprising all facilities for the obtaining, conserving, treating, distributing, storing and supplying of water for domestic use, irrigation, sanitation, industrial use, fire protection, recreation, or any other public or private uses.

"**2026 Bonds**" means the City of Palo Alto Water Revenue Refunding Bonds, 2026 Series A, issued and at any time Outstanding under the Indenture.

Certain Redemption Provisions

Consequences of Notice. Notice of redemption having been given as aforesaid, the 2026 Bonds or portions of 2026 Bonds so to be redeemed shall, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the City shall default in the payment of the Redemption Price) such 2026 Bonds or portions of 2026 Bonds shall cease to have interest accrue thereon. Upon surrender of such 2026 Bonds for redemption in accordance with said notice, such 2026 Bonds shall be paid by the Trustee at the Redemption Price. Installments of interest due on or prior to the redemption date shall be payable as in the Indenture provided for payment of interest. Upon surrender for any partial redemption of any 2026 Bond, there shall be prepared for the Owner a new 2026 Bond or 2026 Bonds of the same maturity in the amount of the unredeemed principal. All 2026 Bonds which have been redeemed shall be cancelled and destroyed by the Trustee and shall not be redelivered. Neither the failure of any Bond Owner to receive any notice so mailed nor any defect therein shall affect the sufficiency of the proceedings for redemption of any 2026 Bonds nor the cessation of accrual of interest thereon.

Partial Redemption of 2026 Bonds. In the event only a portion of any 2026 Bond is called for redemption, then upon surrender of such 2026 Bond redeemed in part only, the City shall execute and the Trustee shall authenticate and deliver to the Owner, at the expense of the City, a new 2026 Bond or 2026 Bonds, of the same series and maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the 2026 Bond or 2026 Bonds.

Purchase of 2026 Bonds in lieu of Redemption. In lieu of redemption of 2026 Bonds as provided in the Indenture, amounts in the Redemption Account of the Debt Service Fund may also be used and withdrawn by the Trustee at any time, upon the Request of the City filed with the Trustee no later than April 15 in any year, for the purchase of 2026 Bonds at public or private sale as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Debt Service Fund) as the City may in its discretion determine, but not to exceed the principal amount of such 2026 Bonds. The City shall, at the time of any such purchase, pay to the Trustee for deposit in the Debt Service Fund the amount of any deficiency in such Fund which may be caused by such purchase. All 2026 Bonds purchased pursuant to this provision shall be cancelled.

Transfer of 2026 Bonds. Any 2026 Bond may, in accordance with its terms, be transferred upon the Bond Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such 2026 Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, fully executed. Whenever any 2026 Bond shall be surrendered for transfer, the City shall execute and the Trustee shall thereupon authenticate and deliver to the transferee a new 2026 Bond or 2026 Bonds of like tenor, maturity and aggregate principal amount. No 2026 Bonds the notice of redemption of which has been mailed shall be subject to transfer pursuant to this paragraph.

Exchange of 2026 Bonds. 2026 Bonds may be exchanged at the Trust Office of the Trustee, for 2026 Bonds of the same tenor and maturity and of other authorized denominations. No 2026 Bonds the notice of redemption of which has been mailed pursuant to the Indenture shall be subject to exchange pursuant to this paragraph.

Issuance of Parity Debt

In addition to the 2026 Bonds, the City may, by Parity Debt Instrument, issue or incur other loans, advances or indebtedness payable from Net Revenues to be derived from the Water System, in such principal amount as shall be determined by the City. The City may issue or incur any such Parity Debt pursuant to a Parity Debt Instrument subject to the following specific conditions, which are made conditions precedent to the issuance and delivery of such Parity Debt:

(a) The City shall be in compliance with all covenants set forth in the Indenture.

(b) The Net Revenues for the last audited Fiscal Year of the City, or for any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of adoption by the City Council of the resolution authorizing the issuance of such Parity Debt or the date of the execution of such Parity Debt (the "Test Year"), shall have produced a sum equal to at least 125% of the Debt Service on the 2026 Bonds and outstanding Parity Debt for such Test Year.

(c) The Net Revenues for the Test Year, including adjustments to give effect as of the first day of such Test Year to increases or decreases in Charges for the service provided by the Water System approved and in effect as of the date of calculation, shall have produced a sum equal to at least 125% of:

(i) the Debt Service on the 2026 Bonds and any Parity Debt outstanding in such Test Year; plus

(ii) the Debt Service which would have accrued on any Parity Debt issued since the end of such Test Year, assuming that such Parity Debt had been executed or issued at the beginning of such Test Year; plus

(iii) the Debt Service which would have accrued had such proposed additional Parity Debt been issued at the beginning of such Test Year.

Notwithstanding the foregoing, Parity Debt issued to refund the 2026 Bonds or any outstanding Parity Debt may be delivered without satisfying the conditions set forth above if total Debt Service on the 2026 Bonds or any outstanding Parity Debt after the issuance of such refunding Parity Debt is not greater than total Debt Service would have been prior to the issuance of such refunding Parity Debt.

(d) The Parity Debt Instrument providing for the issuance of such Parity Debt shall provide that the proceeds of such Parity Debt shall be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, improvements or extensions of existing facilities within the Water System, or otherwise for facilities, improvements or property which the City determines are of benefit to the Water System, or for the purpose of refunding any Bonds or Parity Debt in whole or in part, including all costs (including costs of issuing such Parity Debt and including capitalized interest on such Parity Debt during any period which the City deems necessary or advisable) relating thereto.

Subordinate Debt

Nothing in the Indenture shall prohibit or impair the authority of the City to issue bonds or other obligations secured by a lien on Net Revenues which is subordinate to the lien established under the Indenture, upon such terms and in such principal amounts as the City may determine.

Pledge of Net Revenues

(a) The City transfers, places a charge upon, assigns and sets over to the Trustee, for the benefit of the Owners, the Net Revenues of the Water System. The Net Revenues of the Water System shall not be used for any other purpose while any of the 2026 Bonds remain Outstanding, except that out of Net Revenues of the Water System there may be apportioned and paid such sums for such purposes, as are expressly permitted by this Article. Said pledge shall constitute a first, direct and exclusive charge and lien on the Net Revenues of the Water System for the payment of the principal or Redemption Price of and interest on the 2026 Bonds in accordance with the terms thereof.

(b) The Net Revenues of the Water System constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the 2026 Bonds. The general fund of the City is not liable and the credit or taxing power of the City is not pledged for the payment of the principal or Redemption Price of and interest on the 2026 Bonds. The Owner of the 2026 Bonds shall not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal or Redemption Price of and interest on the 2026 Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Net Revenues of the Water System.

Water Revenue Fund

The City covenants and agrees that all Gross Revenues, when and as received, will be received and held by the City in trust under the Indenture and will be deposited by the City in the Water Revenue Fund (which has heretofore been created and now exists in the City Treasury) and will be accounted for through and held in trust in the Water Revenue Fund, and the City shall only have such beneficial right or interest in any of such money as in the Indenture provided. All such Gross Revenues shall be transferred, disbursed, allocated and applied solely to the uses and purposes hereinafter in this Article set forth, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the City.

All Gross Revenues shall be held in trust by the City in the Water Revenue Fund and shall be applied, transferred, used and withdrawn only for the purposes hereinafter authorized in this Article.

(a) Operating Costs. The City shall first pay from the moneys in the Water Revenue Fund the budgeted Maintenance and Operation Costs as they become due and payable.

(b) Debt Service. On or before the third Business Day prior to each Interest Payment Date, the City shall transfer from the Water Revenue Fund to the Trustee for deposit in the Debt Service Fund (i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding 2026 Bonds on the next succeeding Interest Payment Date, plus (ii) beginning on the third Business Day prior to the initial Sinking Fund Installment set forth in Article II, an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding 2026 Bonds on the next succeeding Principal Installment Date. All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund shall be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Installment Date upon all Outstanding 2026 Bonds.

Following the issuance of Parity Debt, moneys shall be transferred from the Water Revenue Fund to the Debt Service Fund and the debt service fund for any Parity Debt without preference or priority and, in the event of any insufficiency of such moneys, shall be transferred on a pro rata basis based on the amount due on the 2026 Bonds and any Parity Debt on such Interest Payment Date and without regard to moneys available in a debt service reserve account.

(c) Debt Service Reserve Accounts. After making the payments, allocations and transfers provided for in subsection (b) above, if the balance in a debt service reserve account for any Parity Debt is less than the required level, the deficiency shall be restored by transfers from the first moneys which become available in the Water Revenue Fund. In the event of any insufficiency of such moneys, shall be transferred on a pro rata basis to the debt service reserve accounts for any Parity Debt based on the amount required to be deposited into the debt service reserve account.

(d) Surplus. As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner set forth above, any moneys remaining in the Water Revenue Fund may at any time be treated as surplus and applied by the City as required by applicable law.

Debt Service Fund; Redemption Account

The Debt Service Fund, as a special fund, and the Redemption Account, as a special account therein, are created for the 2026 Bonds.

The Debt Service Fund and the Redemption Account therein shall be held and maintained by the Trustee.

Application of the Debt Service Fund.

(a) The Trustee shall withdraw from the Debt Service Fund, prior to each Interest Payment Date, an amount equal to the Interest Requirement payable on such Interest Payment Date, and shall cause the same to be applied to the payment of said interest when due and is authorized to apply the same to the payment of such interest by check or draft (or by wire transfer, as the case may be), as provided in the Indenture.

(b) The Trustee shall withdraw from the Debt Service Fund, prior to each Principal Installment Date, an amount equal to the principal amount of the Outstanding Serial Bonds, if any, maturing on said Principal Installment Date, and shall cause the same to be applied to the payment of the principal of said 2026 Bonds when due, and is authorized to apply the same to such payment upon presentation and surrender of the 2026 Bonds as they become due and payable, as provided in the Indenture 01.

(c) All withdrawals and transfers under the provisions of subsection (a) or subsection (b) above shall be made not earlier than one (1) day prior to the Interest Payment Date or Principal Installment Date to which they relate, and the amount so withdrawn or transferred shall, for the purposes of the Indenture, be deemed to remain in and be part of the appropriate Account until such Interest Payment Date or Principal Installment Date.

Application of Redemption Account. The City shall transfer to the Trustee for deposit in the Redemption Account all amounts required to redeem any 2026 Bonds which are subject to mandatory redemption when and as such amounts become available. Amounts in the Redemption Account shall be applied by the Trustee solely for the purpose of paying the Redemption Price of 2026 Bonds to be redeemed. If after all of the 2026 Bonds have been paid or deemed to have been paid, there are moneys remaining in the Redemption Account, such moneys shall be transferred by the Trustee to the City for deposit in the Water Revenue Fund.

Rate Stabilization Fund

The City has the right at any time to establish a rate stabilization fund (the "Rate Stabilization Fund") to be held by it and administered in accordance with the Indenture, for the purpose of stabilizing the rates and charges imposed by the City with respect to the Water System. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the 2026 Bonds and any Parity Debt, as the City may determine.

The City may, but is not required to, withdraw from any amounts on deposit in a Rate Stabilization Fund and deposit such amounts in the Water Revenue Fund. Amounts so transferred from a Rate Stabilization Fund to the Water Revenue Fund shall be applied for the purposes of the Water Revenue Fund. Amounts on deposit in a Rate Stabilization Fund shall not be pledged to or otherwise secure the 2026 Bonds or any Parity Debt. The City has the right at any time to withdraw any or all amounts on deposit in a Rate Stabilization Fund and apply such amounts for any lawful purposes of the City.

Investments

General. All moneys in the Water Revenue Fund may be invested by the City from time to time in any investments permitted under State law. All moneys in the Debt Service Fund and Cost of Issuance Fund shall be invested by the Trustee solely in Authorized Investments, as directed pursuant to a Request of the City. In the absence of any such Request of the City, the Trustee shall hold such moneys uninvested. Obligations purchased as an investment of moneys in any Fund or Account shall be deemed to be part of such Fund or Account, and all interest or gain derived from the investment of amounts in any of the Funds or Accounts established under the Indenture shall be deposited in the Fund or Account from which such investment was made; and shall be accounted for and applied as provided in the Indenture (with respect to the Debt Service

Fund). For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds held by it under the Indenture with the written approval of the City. The Trustee may act as principal or agent in the acquisition of any investment. The Trustee shall incur no liability for losses arising from any investments made pursuant to the Indenture.

The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City will not receive such confirmations to the extent permitted by law. The Trustee will furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture. The Trustee may make any investments under the Indenture through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture. The Trustee may rely upon any investment direction of the City as a certification to the Trustee that such investment is a legal investment for purposes of the Indenture.

Valuation. In computing the amount in any Fund or Account, Authorized Investments shall be valued at the market price, exclusive of accrued interest. With respect to all Funds and Accounts, valuation shall occur annually.

Except as otherwise provided in the following sentence, the City covenants that all investments of amounts deposited in any fund or account created by or pursuant to the Indenture, or otherwise containing gross proceeds of the 2026 Bonds (within the meaning of section 148 of the Tax Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by the Indenture or the Tax Code) at Fair Market Value. Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code.

Certain Covenants

Punctual Payment; Compliance With Documents. The City shall punctually pay or cause to be paid the interest and principal to become due with respect to all of the 2026 Bonds in strict conformity with the terms of the 2026 Bonds and of the Indenture, and will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Parity Debt Instruments.

Against Encumbrances. The City will not mortgage or otherwise encumber, pledge or place any charge upon the Water System or any part thereof, or upon any of the Net Revenues, except as provided in the Indenture; provided, however, that nothing in this paragraph nor elsewhere in the Indenture shall be construed to prevent the City from entering into long-term contracts to finance supplies of water, gas, or electric energy, payments under which are accounted for as Maintenance and Operation Costs under the definition thereof.

Discharge of Claims. The City covenants that in order to fully preserve and protect the priority and security of the 2026 Bonds the City shall pay from the Net Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Water System which, if unpaid, may become a lien or charge upon the Net Revenues prior or superior to the lien of the 2026 Bonds and impair the security of the 2026 Bonds. The City shall also pay from the Net Revenues all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Water System or upon any part thereof or upon any of the Net Revenues therefrom.

Acquisition, Construction or Financing of any Improvement to the Water System. The City will acquire, construct, or finance any Improvement to the Water System to be financed with the proceeds of any Parity Debt with all practicable dispatch, and such Improvement will be made in an expeditious manner and in conformity with laws so as to complete the same as soon as possible.

Maintenance and Operation of Water System in Efficient and Economical Manner. The City covenants and agrees to maintain and operate the Water System in an efficient and economical manner and to operate, maintain and preserve the Water System in good repair and working order.

Against Sale, Eminent Domain.

(a) The City will not sell, lease or otherwise dispose of the Water System or any part thereof essential to the proper operation of the Water System or to the maintenance of the Net Revenues except as in the Indenture expressly permitted. The City will not enter into any lease or agreement which impairs the operation of the Water System or any part thereof necessary to secure adequate Net Revenues for the payment of the interest on and principal or Redemption Price, if any, on the 2026 Bonds, or which would otherwise impair the rights of the Holders with respect to the Net Revenues or the operation of the Water System. Any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Water System, or any material or equipment which has worn out, may be sold at not less than the market value thereof without the consent of the Holders if such sale will not reduce Net Revenues and if all of the Net Proceeds of such sale are deposited in the Water Revenue Fund.

(b) If all or any part of the Water System shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be deposited in an Insurance and Condemnation Fund established and held by the City and applied as follows:

(a) If the City has determined that it needs to use the Net Proceeds to make Improvements to the Water System in order for the City to comply with its covenant to maintain and operate the Water System, the City shall use such Net Proceeds to make such additions, betterments, extensions or improvements. If such Net Proceeds shall exceed the costs of such additions, betterments, extensions or improvements that are required for the City to comply with its covenant to maintain and operate the Water System , the excess shall be applied to any lawful purpose of the Water System, including (i) the payment of Debt Service on the 2026 Bonds and payments on any Parity Debt, (ii) the early redemption of the 2026 Bonds in accordance with the Indenture and prepayments of any Parity Debt in accordance with the related Parity Debt Instrument and (iii) the payment of capital costs of Improvements to the Water System. Until such time as the 2026 Bonds have been redeemed or paid at maturity, any such use of the Net Proceeds shall comply with the City's federal tax law covenants.

(b) If the City has determined that it does not need to use the Net Proceeds to make Improvements to the Water System in order for the City to comply with its covenant to maintain and operate the Water System, the City shall use such Net Proceeds for any lawful purpose of the Water System, including including (i) the payment of Debt Service on the 2026 Bonds and payments on any Parity Debt, (ii) the early redemption of the 2026 Bonds in accordance with the Indenture and prepayments of any Parity Debt in accordance with the related Parity Debt Instrument and (iii) the payment of capital costs of Improvements to the Water System. Until such time as the 2026 Bonds have been redeemed or paid at maturity, any such use of the Net Proceeds shall comply with the City's federal tax law covenants

Insurance.

(a) The City covenants that it shall at all times maintain such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties.

Any such insurance shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the City, or may be in the form of self-insurance by the City. The City shall establish such fund or funds or reserves as are necessary to provide for its share of any such self-insurance.

(b) In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance, the Net Proceeds of such insurance shall be deposited by the City in an Insurance and Condemnation Fund to be established and held by the City and applied to the repair, reconstruction or replacement of the damaged or destroyed portion of the Water System to the extent required for the City to comply with its covenant to maintain and operate the Water System. The City shall cause such repair, reconstruction or replacement to begin promptly after such damage or destruction shall occur and to continue and to be properly completed as expeditiously as possible, and shall pay out of the Net Proceeds of such insurance all costs and expenses in connection with such repair, reconstruction or replacement so that the same shall be completed and the Water System shall be free and clear of all liens and claims. If the Net Proceeds received by reason of any such loss shall exceed the costs of such repair, reconstruction or replacement that is required for the City to comply with its covenant to maintain and operate the Water System, the excess shall be applied to any lawful purpose of the Water System, including (i) the payment of Debt Service on the 2026 Bonds and payments on any Parity Debt, (ii) the early redemption of the 2026 Bonds in accordance with the Indenture and prepayments of any Parity Debt in accordance with the related Parity Debt Instrument and (iii) the payment of capital costs of Improvements to the Water System. Until such time as the 2026 Bonds have been redeemed or paid at maturity, any such use of the Net Proceeds shall comply with the City's federal tax law covenants.

If the City has determined that any Net Proceeds received by reason of a loss are not required to be applied to the repair, reconstruction or replacement of the damaged or destroyed portion of the Water System in order for the City to comply with the insurance provisions of the Indenture, then the City shall apply the Net Proceeds to any lawful purpose of the Water System, including (i) the payment of Debt Service on the 2026 Bonds and payments on any Parity Debt, (ii) the early redemption of the 2026 Bonds in accordance with the Indenture and prepayments of any Parity Debt in accordance with the related Parity Debt Instrument and (iii) the payment of capital costs of Improvements to the Water System. Until such time as the 2026 Bonds have been redeemed or paid at maturity, any such use of the Net Proceeds shall comply with the City's federal tax law covenants.

Records and Accounts. books of record and accounts of the Water System, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Water System. Said books shall, upon reasonable request, be subject to the inspection of the Owners of not less than ten percent (10%) of the Outstanding 2026 Bonds or their representatives authorized in writing.

The City covenants that it will cause the books and accounts of the Water System to be audited annually by an Independent Certified Public Accountant and will make available for inspection by the Bond Owners, upon reasonable request, a copy of the report of such Independent Certified Public Accountant.

The City covenants that it will cause to be prepared annually, not more than two hundred seventy (170) days after the close of each Fiscal Year, as a part of its regular annual financial report, a summary statement showing the amount of Gross Revenues and the amount of all other funds collected which are required to be pledged or otherwise made available as security for payment of principal of and interest on the 2026 Bonds, the disbursements from the Gross Revenues and other funds in reasonable detail, and a general statement of the financial and physical condition of the Water System. The City shall furnish a copy of the statement to the Trustee, and upon written request, to any Bond Owner. The Trustee shall have no duty to review such statement.

Protection of Security and Rights of Owners. will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of the 2026 Bonds by the City, such 2026 Bonds shall be incontestable by the City.

Against Competitive Facilities. The City will not acquire, construct, operate or maintain any system or utility within the service area of the City that would be competitive with the Water System.

Payment of Taxes, Etc. The City will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Water System or any part thereof or upon any Revenues when the same shall become due. The City will duly observe and conform with all valid requirements of any governmental authority relative to the Water System or any part thereof, and will comply with all requirements with respect to any state or federal grants received to assist in paying for the costs of the acquisition, construction or financing of any Improvements to the Water System.

Rates and Charges.

(a) To the fullest extent permitted by law, the City shall fix and prescribe, at the commencement of each Fiscal Year, Charges for the Water System which are reasonably expected to be at least sufficient to yield during such Fiscal Year Net Revenues (including amounts transferred from the Rate Stabilization Fund to the Water Revenue Fund during such Fiscal Year) equal to one hundred twenty-five percent (125%) of Debt Service on the 2026 Bonds and all Parity Debt payable in such Fiscal Year.

(b) The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues, from such reduced rates and charges are reasonably expected to be sufficient to meet the requirements of the rate covenant.

(c) So long as the City has complied with its obligations set forth in clause (a) and (b) above, the failure of Net Revenues to equal one hundred twenty-five percent (125%) of Debt Service at the end of a Fiscal Year shall not constitute a default or an Event of Default under the Indenture.

No Priority for Additional Obligations. any priority in payment of principal or interest out of the Net Revenues over the 2026 Bonds.

Tax Covenants.

(a) Private Activity Bond Limitation. The City will assure that the proceeds of the 2026 Bonds are not so used as to cause the 2026 Bonds to satisfy the private business tests of section 141(b) of the Tax Code or the private loan financing test of section 141(c) of the Tax Code.

(b) Federal Guarantee Prohibition. The City will not take any action or permit or suffer any action to be taken if the result of such action would be to cause any of the 2026 Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Tax Code.

(c) Rebate Requirement. The City will take any and all actions necessary to assure compliance with section 148(f) of the Tax Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the 2026 Bonds.

(d) No Arbitrage. The City will not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the 2026 Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the 2026 Bonds would have caused the 2026 Bonds to be "arbitrage bonds" within the meaning of section 148 of the Tax Code.

(e) Maintenance of Tax-Exemption. The City will take all actions necessary to assure the exclusion of interest on the 2026 Bonds from the gross income of the Owners of the 2026 Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the date of issuance of the 2026 Bonds.

(f) Record Retention. The City will retain its records of all accounting and monitoring it carries out with respect to the 2026 Bonds for at least 3 years after the 2026 Bonds mature or are redeemed (whichever is earlier); however, if the 2026 Bonds are redeemed and refunded, the City will retain its records of accounting and monitoring at least 3 years after the earlier of the maturity or redemption of the obligations that refunded the 2026 Bonds.

(g) Compliance with Tax Certificate. The City will comply with the provisions of the Tax Certificate and the Use of Proceeds Certificate with respect to the 2026 Bonds, which are incorporated in the Indenture as if fully set forth in the Indenture. The tax covenants will survive payment in full or defeasance of the 2026 Bonds.

Certain Provisions Related to the Trustee

Appointment of Trustee. U.S. Bank Trust Company, National Association, a national banking association organized and existing under and by virtue of the laws of the United States of America, at its corporate trust office in San Francisco, California, is appointed Trustee by the City for the purpose of receiving all moneys required to be deposited with the Trustee under the Indenture and to allocate, use and apply the same as provided in the Indenture. The City agrees that it will maintain a Trustee having a corporate trust office in San Francisco, California, with a combined capital and surplus of at least One Hundred Million Dollars ($100,000,000), and subject to supervision or examination by federal or State authority, so long as any 2026 Bonds are Outstanding. If such bank or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the Indenture the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee is authorized to pay the 2026 Bonds when duly presented for payment at maturity, or on redemption or purchase prior to maturity, and to cancel all 2026 Bonds upon payment thereof. The Trustee shall keep accurate records of all funds administered by it and of all 2026 Bonds paid and discharged.

Acceptance of Trusts. The Trustee accepts the trusts imposed upon it by the Indenture, and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

(a) The Trustee, prior to the occurrence of an Event of Default and after curing or waiver of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Indenture. In case an Event of Default under the Indenture has occurred (which has not been cured or waived) the Trustee may exercise such of the rights and powers vested in it by the Indenture, and shall use the same degree of care and skill in their exercise, as a prudent and reasonable man would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Trustee may execute any of the trusts or powers hereof and perform the duties required of it under the Indenture by or through attorneys, agents, or receivers but shall be answerable for the selection of the same in accordance with the standard specified above, and shall be entitled to advice of counsel concerning all matters of trust and its duty under the Indenture, and the Trustee shall not be liable for any action taken or not taken by it in good faith reliance upon the advice or opinion of such counsel.

(c) The Trustee shall not be responsible for any recital in the Indenture, or in the 2026 Bonds, or for the validity of the Indenture or any of the supplements thereto or instruments of further assurance, or for the sufficiency of the security for the 2026 Bonds issued under the Indenture or intended to be secured by the Indenture and the Trustee shall not be bound to ascertain or inquire as to the observance or performance of any covenants, conditions or agreements on the part of the City under the Indenture. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with the Indenture .

(d) The Trustee shall not be accountable for the use of any proceeds of sale of the 2026 Bonds delivered under the Indenture. The Trustee may become the Owner of 2026 Bonds secured by the Indenture with the same rights which it would have if not the Trustee; may acquire and dispose of other bonds or evidence of indebtedness of the City with the same rights it would have if it were not the Trustee; and may act as a depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of 2026 Bonds, whether or not such committee shall represent the Owners of the majority in principal amount of the 2026 Bonds then Outstanding.

(e) In the absence of bad faith on its part, the Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken or omitted to be taken by the Trustee in good faith and without negligence pursuant to the Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the Owner of any 2026 Bond, shall be conclusive and binding upon all future Owners of the same 2026 Bond and upon 2026 Bonds issued in exchange therefor or in place thereof. The Trustee shall not be bound to recognize any person as an Owner of any 2026 Bond or to take any action at his request unless the ownership of such 2026 Bond by such person shall be reflected on the Bond Registration Books.

(f) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a Certificate of the City as sufficient evidence of the facts therein contained and prior to the occurrence of an Event of Default under the Indenture of which the Trustee has been given notice or is deemed to have notice, as provided in the Indenture, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed by it to be necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a Certificate of the City to the effect that an authorization in the form therein set forth has been adopted by the City, as conclusive evidence that such authorization has been duly adopted and is in full force and effect.

(g) The permissive right of the Trustee to do things enumerated in the Indenture shall not be construed as a duty and it shall not be answerable for other than its negligence or willful default. The immunities and exceptions from liability of the Trustee shall extend to its officers, directors, employees and agents.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any Event of Default under the Indenture except failure by the City to make any of the payments to the Trustee required to be made by the City pursuant hereto or failure by the City to file with the Trustee any document required by the Indenture to be so filed subsequent to the issuance of the 2026 Bonds, unless the Trustee shall be specifically notified in writing of such default by the City or by the Owners of at least twenty-five percent (25%) in aggregate principal amount of the 2026 Bonds then Outstanding and all notices or other instruments required by the Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the Trust Office of the Trustee, and in the absence of such notice so delivered the Trustee may conclusively assume there is no Event of Default under the Indenture except as aforesaid.

(i) At any and all reasonable times the Trustee, and its duly authorized agents, attorneys, experts, engineers, accountants and representatives, shall have the right (but not the duty) fully to inspect the Water System, including all books, papers and records of the City pertaining to the Water System and the 2026 Bonds, and to take such memoranda from and with regard thereto as may be desired but which is not privileged by statute or by law.

(j) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(k) Notwithstanding anything elsewhere in the Indenture with respect to the execution of any 2026 Bonds, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of the Indenture, the Trustee shall have the right, but shall not be required, to demand any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, as may be deemed desirable for the purpose of establishing the right of the City to the execution of any 2026 Bonds, the withdrawal of any cash, or the taking of any other action by the Trustee.

(l) Before taking the action referred to in the Indenture the Trustee may require that a satisfactory indemnity bond be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful default in connection with any such action.

(m) All moneys received by the Trustee shall, until used or applied or invested as in the Indenture provided, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required by law. The Trustee shall not be under any liability for interest on any moneys received under the Indenture except such as may be agreed upon.

Notice to Bond Owners of Default. If an Event of Default under the Indenture occurs with respect to any 2026 Bonds, of which the Trustee has been given or is deemed to have notice, as provided in the Indenture, then the Trustee shall promptly give written notice thereof by first-class mail to the Owner of each such 2026 Bond, unless such Event of Default shall have been cured before the giving of such notice; provided, however, that unless such Event of Default consists of the failure by the City to make any payment when due, the Trustee may elect not to give such notice if and so long as the Trustee in good faith determines that it is in the best interests of the Bond Owners not to give such notice.

Intervention by Trustee. In any judicial proceeding to which the City is a party which, in the opinion of the Trustee and its counsel, has a substantial bearing on the interests of Owners of any of the 2026 Bonds, the Trustee may intervene on behalf of such Bond Owners, and subject to the Indenture, shall do so if requested in writing by the Owners of at least twenty-five percent (25%) in aggregate principal amount of such 2026 Bonds then Outstanding.

Removal of Trustee. The Owners of a majority in aggregate principal amount of the Outstanding 2026 Bonds may at any time, and the City may, so long as no Event of Default shall have occurred and then be continuing, remove the Trustee initially appointed, and any successor thereto, by an instrument or concurrent instruments in writing delivered to the Trustee (where applicable), whereupon the City or such Owners, as the case may be, shall appoint a successor or successors thereto; provided that any such successor shall be a bank or trust company meeting the requirements set forth in the Indenture.

Resignation by Trustee. The Trustee and any successor Trustee may at any time resign by giving thirty (30) days' written notice by registered or certified mail to the City. Upon receiving such notice of resignation, the City shall promptly appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. Upon such acceptance, the City shall cause notice thereof to be given by first class mail to the Bond Owners at their respective addresses set forth on the Bond Registration Books. No resignation of the Trustee shall take effect until a successor is appointed and has accepted.

Appointment of Successor Trustee. In the event of the removal or resignation of the Trustee pursuant to the Indenture, respectively, the City shall promptly appoint a successor Trustee. In the event the City shall for any reason whatsoever fail to appoint a successor Trustee within forty-five (45) days following the delivery to the Trustee of the instrument described in the Indenture or within forty-five (45) days following the receipt of notice by the City pursuant to the Indenture , the Trustee may apply to a court of competent jurisdiction for the appointment of a successor Trustee meeting the requirements of the Indenture. Any such successor Trustee appointed by such court shall become the successor Trustee under the Indenture notwithstanding any action by the City purporting to appoint a successor Trustee following the expiration of such forty-five-day period.

Indemnification; Limited Liability of Trustee. The City shall indemnify and hold the Trustee harmless from and against all claims, losses, costs, expenses, liabilities and damages including legal fees and expenses arising from the exercise and performance of its duties under the Indenture. Such indemnity shall survive the resignation or removal of the Trustee under the Indenture. No provision in the Indenture shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability under the Indenture if it shall have reasonable grounds for believing repayment of such funds or adequate indemnity against such liability or risk is not assured to it. The Trustee shall not be liable for any action taken or omitted to be taken by it in accordance with the direction of a majority (or other percentage provided herein) of the Owners of the principal amount of

Bonds Outstanding relating to the exercise of any right, power or action, or the time, method and place of conducting any proceeding or remedy available to the Trustee under the Indenture.

Modification and Amendment of the Indenture

Amendment by Consent of Bond Owners. The Indenture and the rights and obligations of the City and of the Owners of the 2026 Bonds may be modified or amended at any time by a supplemental indenture which shall become binding when the written consent of the Owners of a majority in aggregate principal amount of the 2026 Bonds then Outstanding exclusive of 2026 Bonds disqualified as provided in the Indenture, are filed with the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any 2026 Bond or otherwise alter or impair the obligation of the City to pay the principal, interest or redemption premiums at the time and place and at the rate and in the currency provided therein of any 2026 Bond without the express written consent of the Owner of such 2026 Bond, (b) reduce the percentage of 2026 Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

Amendment Without Consent of Bond Owners. Indenture and the rights and obligations of the City and of the Owners of the 2026 Bonds may also be modified or amended at any time by a supplemental indenture which shall become binding upon execution and delivery, without consent of any Bond Owners, but only to the extent permitted by law and only for any one or more of the following purposes-

(a) to add to the covenants and agreements of the City in the Indenture contained, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power in the Indenture reserved to or conferred upon the City; or

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in any other respect whatsoever as the City may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not adversely affect the interests of the Owners of the 2026 Bonds;

(c) to provide for the issuance of any Parity Debt, and to provide the terms and conditions under which such Parity Debt may be issued, including but not limited to the establishment of special funds and accounts relating to such Parity Debt and any other provisions relating solely to such Parity Debt, subject to and in accordance with the provisions of the Indenture; or

(d) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from federal income taxation of interest on the 2026 Bonds.

Disqualified Bonds. 2026 Bonds owned or held by or for the account of the City (but excluding 2026 Bonds held in any employees' retirement fund) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding 2026 Bonds in this article provided for, and shall not be entitled to consent to, or take any other action in this article provided for.

Amendment by Mutual Consent. The provisions of this Article VII shall not prevent any Bond Owner from accepting any amendment as to the particular 2026 Bond held by him, provided that due notation thereof is made on such 2026 Bond.

Events of Default and Remedies

Events of Default and Acceleration of Maturities. The following events shall be Events of Default under the Indenture:

(a) Default in the due and punctual payment of the principal of any 2026 Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;

(b) Default in the due and punctual payment of any installment of interest on any 2026 Bond when and as such interest installment shall become due and payable;

(c) Default by the City in the observance of any of the covenants, agreements or conditions on its part in the Indenture or in the 2026 Bonds contained, and such default shall have continued for a period of sixty (60) days after the City shall have been given notice in writing of such default by the Trustee; or

(d) The filing by the City of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the City, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property.

Upon the occurrence of an Event of Default, the Trustee may, and shall, at the direction of the owners of a majority of the principal amount of the 2026 Bonds, by written notice to the City, declare the principal of the 2026 Bonds to be immediately due and payable, whereupon that portion of the principal of the 2026 Bonds thereby coming due and there interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Indenture or in the 2026 Bonds to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of the 2026 Bonds shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City shall deposit with the Trustee a sum sufficient to pay all of the principal of and interest on the 2026 Bonds having come due prior to such declaration, with interest on such overdue principal and interest calculated at the rate of interest per annum then borne by the Outstanding 2026 Bonds, and the reasonable fees and expenses of the Trustee and those of its attorneys, and any and all other defaults known to the Trustee (other than in the payment of the principal of and interest on the 2026 Bonds having come due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of a majority in aggregate principal amount of the 2026 Bonds at the time Outstanding may, by written notice to the City and to the Trustee, on behalf of the Owners of all of the Outstanding 2026 Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture shall be applied by the Trustee in the following order upon presentation of the several 2026 Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid -

First, to the payment of the costs and expenses of the Trustee and of Bond Owners in declaring such Event of Default, including reasonable compensation to their agents, attorneys and counsel, and to the payment of the costs and expenses of the Trustee, if any, in carrying out the provisions of this Article VIII, including reasonable compensation to its agents, attorneys and counsel; and

Second, to the payment of the whole amount then owing and unpaid upon the 2026 Bonds for interest and principal, with interest on such overdue amounts to the extent permitted by law at the rate of interest then borne by the Outstanding 2026 Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the 2026 Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably in proportion to the aggregate of such interest, principal and interest on overdue amounts.

Other Remedies; Rights of Bond Owners. Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy, in addition to the remedy specified in the Indenture, at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding 2026 Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least twenty-five percent (25%) in aggregate principal amount of Outstanding 2026 Bonds and indemnified as provided in the Indenture, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this Article VIII, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Bond Owners.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee (or to the Bond Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bond Owners under the Indenture or now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the 2026 Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the 2026 Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding 2026 Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation. Any suit, action or proceeding which any Owner of 2026 Bonds shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners of 2026 Bonds similarly situated and the Trustee is appointed (and the successive respective Owners of the 2026 Bonds issued under the Indenture, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the 2026 Bonds for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the 2026 Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

Appointment of Receivers. Upon the occurrence of an Event of Default under the Indenture, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bond Owners under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Revenues and other amounts pledged under the Indenture, pending such proceedings, with such powers as the court making such appointment shall confer.

Non-Waiver. Nothing in this Article VIII or in any other provision of the Indenture, or in the 2026 Bonds, shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the interest on and principal of the 2026 Bonds to the respective Owners of the 2026 Bonds at the respective dates of maturity, as in the Indenture provided, out of the Net Revenues and other moneys in the Indenture pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Bond Owners shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission of the Trustee or any Owner of any of the 2026 Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy conferred upon the Trustee or Bond Owners by the Refunding Law or by this Article VIII may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Bond Owners, as the case may be.

If a suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Bond Owners, the City and the Bond Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Rights and Remedies of Bond Owners. No Owner of any 2026 Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the 2026 Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of 2026 Bonds of any remedy under the Indenture; it being understood and intended that no one or more Owners of 2026 Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner in the Indenture provided and for the equal benefit of all Owners of the Outstanding 2026 Bonds.

The right of any Owner of any 2026 Bond to receive payment of the principal of and interest and premium (if any) on such 2026 Bond as in the Indenture provided or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of the remedial provisions or any other provision of the Indenture.

Termination of Proceedings In case the Trustee shall have proceeded to enforce any right under the Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the City, the Trustee and the Bond Owners shall be restored to their former positions and rights under the Indenture, respectively, with regard to the property subject to the Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

Limited Liability of City

Notwithstanding anything in the Indenture contained, the City shall not be required to advance any moneys derived from any source of income other than the Net Revenues for the payment of the principal of or interest on the 2026 Bonds, or any premiums upon the redemption thereof, or for the performance of any covenants in the Indenture contained (except to the extent any such covenants are expressly payable under the Indenture from the Gross Revenues). The City may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the City for such purpose without incurring indebtedness.

Discharge of Indenture

If the City shall pay and discharge any or all of the Outstanding 2026 Bonds in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of and interest and premium (if any) on such 2026 Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established pursuant to the Indenture, is fully sufficient to pay such 2026 Bonds, including all principal, interest and redemption premiums; or

(c) by depositing with a qualified escrow holder, in trust, Defeasance Obligations in such amount as the City (verified by an Independent Certified Public Accountant) shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the Funds and Accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on such 2026 Bonds (including all principal, interest and redemption premiums, if any) at or before their respective maturity dates;

and if such 2026 Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been mailed pursuant to the Indenture or provision satisfactory to the Trustee shall have been made for the mailing of such notice, then, at the election of the City, and notwithstanding that any of such 2026 Bonds shall not have been surrendered for payment, the pledge of the Net Revenues and other funds provided for in the Indenture with respect to such 2026 Bonds, and all other pecuniary obligations of the City under the Indenture with respect to all such 2026 Bonds, shall cease and terminate, except only the obligation of the City to pay or cause to be paid to the Owners of such 2026 Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose as aforesaid, and all expenses and costs of the Trustee. Notice of such election shall be filed with the Trustee.

Any funds thereafter held by the Trustee, which are not required for said purposes, shall be paid over to the City.

Refunding bonds may be issued at any time without regard to whether an Event of Default exists.

To accomplish defeasance the City shall cause to be delivered (i) a report of an Independent Certified Public Accountant verifying the sufficiency of the escrow established to pay the 2026 Bonds in full on the maturity or earlier redemption date ("Verification"), (ii) an escrow deposit agreement, and (iii) an opinion of nationally recognized bond counsel to the effect that the 2026 Bonds are no longer "Outstanding" under the Indenture; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the City and the Trustee.

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APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

____, 2026

City of Palo Alto
250 Hamilton Ave.
Palo Alto, CA 94301

OPINION: $______ City of Palo Alto Water Revenue Refunding Bonds, 2026 Series A

Members of the Council:

We have acted as bond counsel in connection with the issuance by the City of Palo Alto (the "City") of the captioned bonds (the "Bonds") under (i) Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, (ii) an Indenture of Trust dated as of October 1, 2026, by and between the City and U.S. Bank Trust Company, National Association, as trustee (the "Indenture"), and (iii) a resolution of the City Council of the City adopted on September 14, 2026. In such capacity, we have examined such law and such certified proceedings, opinions, certifications and other documents as we deem necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied on representations of the City contained in the Indenture, and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation. Regarding certain questions of law material to our opinion, we have assumed the correctness of certain legal conclusions contained in the written opinions of the City Attorney, and others, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, that:

1. The City is a duly created and validly existing municipal corporation and chartered city with the power to enter into the Indenture and to perform the agreements on its part contained therein.

2. The Indenture has been duly authorized, executed and delivered by the City, and is valid, binding and enforceable against the City in accordance with its terms.

3. The Indenture creates a valid lien on the Net Revenues of the Water System (as such terms are defined in the Indenture) and other funds pledged by the Indenture for the security of the Bonds on a parity basis with other bonds (if any) issued or to be issued in accordance with the Indenture.

4. The Bonds have been duly authorized and executed by the City and constitute valid and binding special obligations of the City, payable solely from Net Revenues of the Water System (as such terms are defined in the Indenture) and other moneys, as described in the Indenture.

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. It should be noted however

that interest on the Bonds may be subject to the corporate alternative minimum tax. The opinions set forth in the preceding sentences are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes which may be retroactive to the date of issuance of the Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Moreover, our opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service or the courts; rather, our opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions, and any assumptions expressed herein, and in reliance upon the representations, covenants and opinions referenced above. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

APPENDIX E

DTC AND THE BOOK-ENTRY-ONLY SYSTEM

The description that follows of the procedures and record keeping with respect to beneficial ownership interests in the 2026 Bonds, payments of principal, premium, if any, and interest on the 2026 Bonds to DTC, its nominee, Participants, or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the 2026 Bonds and other bond-related transactions by and between DTC, Participants and Beneficial Owners is based solely on information furnished by DTC. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the 2026 Bonds, or (b) certificates representing ownership interest in or other confirmation of ownership interest in the 2026 Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC") will act as securities depository for the 2026 Bonds. The 2026 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2026 Bond certificate will be issued for each maturity of each Series of the 2026 Bonds, each in the aggregate principal amount of such Series and maturity and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of the Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information on such website is not incorporated into this Official Statement.

Purchases of the 2026 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for such 2026 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2026 Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2026 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2026 Bonds, except in the event that use of the book-entry system for the 2026 Bonds is discontinued.

To facilitate subsequent transfers, all 2026 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2026 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2026 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2026 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

So long as a book-entry system is used for determining beneficial ownership of the 2026 Bonds, the Trustee is to send redemption notice to DTC or to Cede & Co., as partnership nominee for DTC. Any failure of DTC to advise any Participant, or of any Direct Participant or Indirect Participant to notify the actual purchaser of each 2026 Bond, or any such notice of its content or effect does not affect the validity of the redemption of the 2026 Bonds called for redemption or any other action premised on that notice. In the event of a call for optional redemption, the City's notification to DTC initiates DTC's standard call; and if a partial call, DTC's practice is to determine by lot the amount of the interest of each Participant in the 2026 Bonds to be redeemed, and each such Participant then selects by lot the ownership interest in such 2026 Bonds to be redeemed. When DTC and its Participants allocate the call, the Beneficial Owners of the book-entry interests called are to be notified by the broker or other organization responsible for maintaining the records of those interests and subsequently credited by that organization with the proceeds once the 2026 Bonds are redeemed.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE 2026 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER OF ANY NOTICE AND OF ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE 2026 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2026 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2026 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2026 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from City or Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2026 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2026 Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2026 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

NEITHER THE CITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO., ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (ii) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2026 BONDS; (iii) THE SELECTION BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2026 BONDS; (iv) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE 2026 BONDS; (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE 2026 BONDS; OR (vi) ANY OTHER MATTER.

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the CITY OF PALO ALTO, CALIFORNIA (the "City") in connection with the issuance of its Water Revenue Refunding Bonds, 2026 Series A (the "2026 Bonds"). The 2026 Bonds will be issued pursuant to an Indenture of Trust, dated as of October 1, 2026 (the "Indenture"), by and between the City and U.S. Bank Trust Company, National Association, as trustee (the "Trustee").

In consideration of the Participating Underwriter's purchase of the 2026 Bonds, the City agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 1, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

"*Annual Report*" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Beneficial Owner*" shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"*Dissemination Agent*" shall mean the City or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. In the absence of such a designation, the City shall act as the Dissemination Agent.

"*EMMA*" or "*Electronic Municipal Market Access*" shall mean the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

"*Financial Obligation*" shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"*Listed Events*" shall mean any of the events listed in Section 5(a) or 5(b) of this Disclosure Certificate.

"*MSRB*" shall mean the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"*Participating Underwriter*" shall mean any original underwriter of the 2026 Bonds required to comply with the Rule in connection with offering of the 2026 Bonds.

"*Rule*" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the owners and Beneficial Owners of the 2026 Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report*. The City shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for the 2025-26 Fiscal Year, which is due not later than March 31, 2027, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year*. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent*. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the City.

(d) *Report of Non-Compliance*. If the City is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the City shall send a notice to EMMA in a timely fashion substantially in the form attached hereto as Exhibit A. If the City is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice in a timely fashion to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification*. The Dissemination Agent shall, if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

Section 4. Content of Annual Reports.

(a) The Annual Report for each fiscal year shall contain or incorporate by reference the following information, for the most recently completed fiscal year:

(1) *Financial Statements.* Audited financial statements of the City's Water System (which may be part of the audited financial statements of the City, or the City's Utilities Department) for the preceding fiscal year, prepared in accordance with generally accepted accounting principles. If the audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement for the 2026 Bonds (the "OS"), and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(2) To the extent not included in the audited financial statements or the Annual Comprehensive Financial Report (ACFR) of the City, the Annual Report shall also include operating data with respect to the City for the preceding fiscal year, as follows:

(i) Discussion of any changes in the rate and fee structure with respect to the Water System in the most recently completed fiscal year which could have a material effect on the Net Revenues of the Water System, as discussed in the OS under the caption "THE WATER SYSTEM—Water Rates, Fees and Charges;"

(ii) Description of any Parity Bonds or subordinate debt issued during the most recently completed fiscal year;

(iii) Total actual Gross Revenues and Net Revenues generated by the Water System in the most recently completed fiscal year, the total debt service on the Bonds for such fiscal year, and the respective debt service coverage ratio, substantially in the form of Table 12 to the OS; and

(iv) Updated information on the collective total billings of the top ten customers of the Water System in the most recently completed fiscal year, and the percentage of the total Water System billings represented thereby, as discussed in the OS under the caption "THE WATER SYSTEM—Water Demand and Customer Base—Largest Water Customers."

(b) *Cross References.* Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on EMMA. The City shall clearly identify each such other document so included by reference. If the document included by reference is a final official statement, it must be available from EMMA.

(c) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Listed Events.

(a) *Reportable Events.* The City shall, or shall cause the Dissemination Agent (if not the City) to, give notice of the occurrence of any of the following events with respect to the 2026 Bonds:

(1) Principal and interest payment delinquencies.

(2) Unscheduled draws on debt service reserves reflecting financial difficulties.

(3) Unscheduled draws on credit enhancements reflecting financial difficulties.

(4) Substitution of credit or liquidity providers, or their failure to perform.

(5) Defeasances.

(6) Rating changes.

(7) Tender offers.

(8) Bankruptcy, insolvency, receivership or similar event of the obligated person.

(9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or

other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(10) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation, any of which reflect financial difficulties.

Note: For the purposes of the event identified in subparagraph (8), the event is considered to occur when any of the following occur: the appointment of a receiver, trustee or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(a) *Material Reportable Events.* The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2026 Bonds, if material:

(1) Non-payment related defaults.

(2) Modifications to rights of security holders.

(3) Bond calls.

(4) The release, substitution, or sale of property securing repayment of the securities.

(5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

(6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(7) Incurrence of a Financial Obligation, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Obligated Person, any of which affect holders of the 2026 Bonds.

(a) *Time to Disclose.* The City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of any Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds under the Indenture.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the 2026 Bonds.

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent*. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the City, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the City. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Bond owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the City shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the City.

(b) *Compensation of Dissemination Agent*. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the City from time to time and all expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the City or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the City. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) *Responsibilities of Dissemination Agent*. In addition of the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the City to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the City under Section 3.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the City that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances*. If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 2026 Bonds, or the type of business conducted.

(b) *Compliance as of Issue Date*. The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the 2026 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) *Consent of Bondowners; Non-impairment Opinion*. The amendment or waiver either (i) is approved by the Bond owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Bond owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bond owners or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the City shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, the Insurer or any Certificate owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Trustee under the Indenture. The obligations of the City under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the 2026 Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Insurer, the Participating Underwriter and the Owners and Beneficial Owners from time to time of the 2026 Bonds, and shall create no rights in any other person or entity.

Date: _______, 2026

CITY OF PALO ALTO, CALIFORNIA

By:_________________________________

Authorized Officer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: City of Palo Alto, California

Name of Issue: Water Revenue Refunding Bonds, 2026 Series A

Date of Issuance: _______, 2026

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate, dated _______, 2026, furnished by the Obligor in connection with the Issue. The Obligor anticipates that the Annual Report will be filed by _________________.

Date: ________________

CITY OF PALO ALTO, CALIFORNIA,
Dissemination Agent

By:_______________________________________
Authorized Officer

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CITY OF
PALO ALTO

CITY OF PALO ALTO • WATER REVENUE REFUNDING BONDS, 2026 SERIES A

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Printed by: ImageMaster, LLC
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