



## City Council Staff Report

**From: City Manager**

**Report Type: CONSENT CALENDAR**

**Lead Department: Administrative Services**

**Meeting Date: December 16, 2024**

Report #:2406-3118

### TITLE

Accept the City of Palo Alto's Audited Financial Statements as of June 30, 2024 and the Macias, Gini & O'Connell Management Letter; Approve the FY 2024 Annual Comprehensive Financial Report; and Amend the FY 2024 Budget in Various Funds, as Recommended by the Finance Committee; CEQA Status – Not a Project

### RECOMMENDATION

Finance Committee and Staff recommend that the City Council:

1. Accept the City of Palo Alto's audited financial statements for the fiscal year ended June 30, 2024, and the accompanying reports prepared by Macias Gini & O'Connell LLP ("MGO")<sup>1</sup>.

Reports include:

- a. Report to the City Council (the "Management Letter"),
- b. Cable TV Franchise, Independent Auditor's Report and Statements of Franchise Revenues and Expenses for the years ended December 31, 2023, and 2022,
- c. Palo Alto Public Improvement Corporation (a component unit of the City of Palo Alto) Annual Financial Report for the year ended June 30, 2024,
- d. Regional Water Quality Control Plant, Independent Auditor's Report and Financial Statements for the year ended June 30, 2024,
- e. Pedestrian/Bicycle Facilities Grant Metropolitan Transportation Commission Transportation Development Act Funds, Article III, Independent Auditor's Reports, Financial Statements and Supplementary Information for the year ended June 30, 2024, and
- f. Independent Accountant's Report on Applying Agreed-Upon Procedures related to the Article XIII-B Appropriations (GANN) Limit for the year ended June 30, 2024.

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<sup>1</sup> Finance Committee, 12/3/2024, Item #1A – CMR# 2405-3095 Finance Committee Staff Report, Discussion and Recommendation to the City Council to Accept the Macias Gini & O'Connell's Audit of the City of Palo Alto's Financial Statements as of June 30, 2024:

<https://portal.laserfiche.com/Portal/DocView.aspx?id=111741&repo=r-704298fc&searchid=6a6510e4-9113-4436-b73b-41d0557c1a9a>

2. Approve the Fiscal Year (FY) 2024 Annual Comprehensive Financial Report (ACFR) and reports collectively referred to as the Single Audit in CMR #2404-2912<sup>2</sup>. An electronic copy is available on the City's website<sup>3</sup>;
3. Amend the Fiscal Year 2024 Budget for various funds as identified *Recommended Amendments to the City Manager's FY 2024 Budget*; referenced as "Attachment B – Exhibit 1 and various capital projects as identified in Attachment B – Exhibit 2" (Attachment I) in CMR #2404-2912<sup>2</sup> PDF pp.26-40 (Effective on first reading; five votes required).

## BACKGROUND

Every year, the fiscal year is closed out and the City Council publishes the City's financial report (Palo Alto Municipal Code 2.28.200). At the December 3, 2024 Finance Committee meeting, the Committee reviewed two staff reports: one transmitted by the City Auditor's Office and one by the City Manager's Office via the Administrative Services Department, and unanimously approved both reports for City Council consideration<sup>4</sup>:

- Office of the City Auditor: Discussion and Recommendation to the City Council to Accept the MGO Audit of the City of Palo Alto's Financial Statements as of June 30, 2024<sup>1</sup>.
- Administrative Services Department: Recommendation to Approve the Fiscal Year (FY) 2024 ACFR and Approve FY 2024 Budget Amendments in Various Funds<sup>2</sup>.

MGO issued a clean opinion on each audit report. The City also received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) for its FY 2023 ACFR.

## ANALYSIS

### ***Government-wide***

As outlined in the staff report to the Finance Committee, at the close of FY 2024, the City's total Net Position was \$1.5 billion, an increase of \$98.1 million or 7.2% over the prior fiscal year. The total increase of \$98.1 million consists of \$35.1 million from governmental activities and \$63.0 million from business-type activities. Approximately 75% of this increase is attributable to net investment in capital assets (Public Safety Building, Secondary Treatment Upgrades,

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<sup>2</sup> Finance Committee, 12/3/2024, Item #1B – CMR# 2404-2912 Finance Committee Staff Report, Approval of the FY 2024 ACFR, and Year-End Budget Amendments in Various Funds:  
<https://portal.laserfiche.com/Portal/DocView.aspx?id=111742&repo=r-704298fc&searchid=8c3d4a87-72ab-4009-9048-be41f809fa5e>

<sup>3</sup> <https://www.cityofpaloalto.org/files/assets/public/v/1/administrative-services/financial-reporting/annual-comprehensive-financial-reports-acfr/current-2011-cafrs/city-of-palo-alto-acfr-single-audit-fy2024-final-unsecured.pdf>

<sup>4</sup> December 3, 2024, Finance Committee Action Minutes:  
<https://portal.laserfiche.com/Portal/DocView.aspx?id=112268&repo=r-704298fc>

Wastewater Collection Rehabilitation and Augmentation projects, and Smart Grid Technology installation) are the primary drivers and restricted funds (i.e., grants, impact fees, pension trust fund), primarily due to additional pension trust contributions and increase of its fair market value. Recoveries in fair market value of investment portfolio primarily accounts for the remaining growth in unrestricted net position. The 95% of citywide net position is comprised of net investment in capital assets of \$1.2 billion (86%) and restricted net position of \$104 million (9%), leaving unrestricted net position of \$48.9 million or 5%.

### ***General Fund***

Overall, at the end of the current fiscal year, the General Fund's fund balance was \$106.7 million, of which \$53.7 million is unassigned fund balance. The main difference between the BSR balance (\$65.9 million) and unassigned fund balance is the investment unrealized loss adjustment, as required by Governmental Accounting Standards Board (GASB) Statement No. 31. Discussion can be found in staff's December 3, 2024 report to the Finance Committee<sup>2</sup>.

The Finance Committee discussed the status of the General Fund and the Budget Stabilization Reserve (BSR) balance. By policy, the City maintains a BSR balance of 15-20% of the annual operating expense, with a target level of 18.5%. After adjusting the BSR for FY 2025 uses approved by Council<sup>5</sup>, the net BSR balance was \$63.3 million, or \$8.9 million above Council's 18.5% BSR target level. The \$8.9 million is comprised of \$7.9 million or a 1.5% budget variance compared to the total FY 2024 actual General Fund revenues and expenditures, well within acceptable standard deviation given the complexity, size, and fluctuation of the General Fund budget. In addition, the remaining \$1 million variance is due to an isolated misclassification of prior year reappropriation, which staff discovered in the year-end close reconciliation. Additional discussion and detail can be found in the December 3<sup>rd</sup> Finance Committee staff report<sup>2</sup>.

Staff recommends that the \$8.9 million above the 18.5% BSR target level be allocated between the Capital Fund Infrastructure Reserve (IR) (\$3.0 million) and Budget Uncertainty Reserve (\$5.9 million). The budget actions to allocate the BSR funds above the 18.5% target level will be included in the FY 2025 Mid-Year Review (February 2025).

### ***Enterprise Funds***

As of June 30, 2024, the City's Enterprise Funds reported a total net position of \$882.5 million, an increase of \$55.3 million or 6.7% from the prior fiscal year. Discussion can be found in staff's December 3, 2024 report to the Finance Committee<sup>2</sup>.

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<sup>5</sup> City Council Meeting, June 17 2024, Staff Report 2406-3140:

<https://portal.laserfiche.com/Portal/DocView.aspx?id=73983&repo=r-704298fc&searchid=fe0b0b3a-a510-4161-b80b-7f2c52881023>

**FISCAL/RESOURCE IMPACT**

The actions recommended in CMR 2404-2912 pages<sup>2</sup> Attachment B, both Exhibits 1 and 2, recommend adjustments to the FY 2024 appropriated level of funds to align budgeted levels with year-end activities.

**STAKEHOLDER ENGAGEMENT**

This report has been prepared by the Administrative Service Department Accounting division and coordinated with the Office of the City Auditor and the Office of Management and Budget.

**ENVIRONMENTAL REVIEW**

Council action on this item is not a project as defined by CEQA because the acceptance of the audited financial reports for the fiscal year ending June 30, 2024 , approval of the ACFR for Fiscal Year 2024, and the amendment to the Fiscal Year 2024 Budget Appropriation Ordinance are fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. CEQA Guidelines section 15378(b)(4).

**ATTACHMENTS**

Attachment A: FY 2024 Budget Amendments, Schedule B, Exhibit 1 and 2

**APPROVED BY:**

Lauren Lai, Administrative Services Director