



City of Palo Alto

Finance Committee Staff Report

(ID # 14632)

Meeting Date: 11/29/2022

Report Type: Action Items

Title: Approval of the FY 2022 Annual Comprehensive Financial Report (ACFR) and Year-End Budget Amendments in Various Funds

From: City Manager

Lead Department: Administrative Services

RECOMMENDATION

Staff recommends that the Finance Committee forward to the City Council for its approval:

1. The City's Fiscal Year (FY) 2022 Annual Comprehensive Financial Report (ACFR); and
2. Amend the FY 2022 Budget Appropriation Ordinance for various funds as identified in the attached Recommended Amendments to the City Manager's FY 2022 Budget (Operating Budget: **Attachment B – Exhibit 1**; Capital Budget: **Attachment B – Exhibit 2**).

EXECUTIVE SUMMARY

The City's fiscal year ended on June 30, 2022, financial records closed, and financial reports summarizing the fiscal year were prepared. The reports, along with the City's financial data, were audited by Macias Gini & O'Connell LLP (MGO), Certified Public Accountants, a firm hired by the City Auditor. MGO issued an unmodified (clean) audit opinion on the financial position of the City's activities and, together with the City's financial statements and other information, comprises the City's Annual Comprehensive Financial Report (ACFR). The full report can be found in Attachment C.

In addition to the ACFR, this report includes recommended budget adjustment actions to close the fiscal year. These technical actions reallocate and realign the budget to appropriate funds in alignment with actual operating and capital expenditures and revenue collected as well as adjust transfers between funds.

Financial Highlights for FY 2022

Government-wide

At the close of FY 2022, the City's total Net Position is \$1.27 billion, an increase of \$40.6 million or 3.2% over the prior fiscal year. The Statement of Net Position (p. 31 of the ACFR) reports Governmental Activities Net Position (the City's basic services which are generally funded by taxes, and by specific program revenues such as fees and grants) at \$474.1 million, a \$51.0

million increase from the prior year, and Business-Type Activities Net Position (the City's enterprise activities which are funded in whole or in part by fees charged to external parties) at \$796.8 million, a \$10.4 million decrease. Various factors contributed to these changes, including accounting adjustments required by the Governmental Accounting Standards Board (GASB).

General Fund

The General Fund ended with a net Budget Stabilization Reserve (BSR) surplus of \$14.2 million, compared to estimates used in the development of the FY 2023 Adopted Budget and the Council's target reserve level of 18.5% of budgeted expenses. Overall, a total \$100.1 million fund balance of both restricted and unrestricted balances is \$24.4 million higher than the prior year balance of \$75.6 million. The BSR is \$72.8 million, a \$23.7 million or 48.3% increase from FY 2021. This increase is driven by both higher than budgeted revenues and lower than budgeted expenditures. Much of this variance was forecasted, discussed, and a core component of the FY 2023 Adopted Budget and two-year budget balancing strategy to ensure continued stability for the organization and community through uncertain times. Once the BSR is adjusted for Council approved uses to balance the FY 2023 Adopted Budget¹ and other needs through the first quarter of FY 2023, the City's actual \$59.8 million BSR balance is above the Council's 18.5% target (\$45.6 million) for FY 2023 by \$14.2 million.

Major tax revenues such as sales tax, property tax, transient occupancy tax, utility user tax, and documentary transfer tax were higher than budgeted while expense savings were realized across many of the departments (detailed in Attachment A). Although all the major taxes are higher than the Adjusted Budget, the pandemic continues to impact the City's revenue with sales tax, transient occupancy tax, and utility user tax, remaining lower compared to pre-pandemic revenues.

Business Type Activities (Enterprise Funds & Internal Service Funds)

As of June 30, 2022, the City's Enterprise Funds reported a total net position of \$796.8 million, a decrease of \$10.4 million or 1.3% from the prior year. All funds showed positive balances: Net Investment in Capital Assets (\$670.8 million), Restricted for Debt Service (\$3.3 million), and Unrestricted (\$122.7 million).

Internal Service Funds ended the fiscal year with \$86.0 million net position balance. All funds showed positive balances except the Printing and Mailing and Workers Compensation Insurance Program Funds. The Printing and Mailing Fund reported a \$0.2 million negative balance due to the pension liability per GASB 68 and Other Post-Employment Benefits (OPEB) liability per GASB 75. Workers Compensation Insurance Program Fund showed a \$0.6 million negative balance due to unrealized market losses on investments. Once adjusted for these noncash transactions, both funds remain with a positive fund balance.

¹ City Council June 30, 2022, Agenda Item #28; CMR #14352;
<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2022/20220620/20220620pccsm-amended-final-final.pdf#page=557>

BACKGROUND

The City's fiscal year ends on June 30, at which time its financial records are closed for the year and financial reports are prepared. The reports, along with the City's financial data, are audited by Macias Gini & O'Connell LLP (MGO), Certified Public Accountants, a firm hired by the City Auditor. MGO issues an audit opinion on the financial position of the City's activities and, together with the City's financial statements and other information, comprises the City's Annual Comprehensive Financial Report (ACFR) that can be found in **Attachment C**.

Attachment B outlines technical recommended amendments to the FY 2022 Budget. These recommended actions close the fiscal year by reallocating and realigning budget to appropriate funds for actual operating and capital expenditures and revenue collected as well as adjust transfers between funds. The General Fund Summary found in **Attachment A**, provides detailed information of revenue and expenditures by department. The Discussion section of this staff report includes Results by Fund which discusses position of fund balances, major revenue sources, and expense highlights.

The ACFR includes government-wide statements and fund level financial statements that provide a snapshot of fund balances and activity for the year. An overview of financial results, information on how to navigate the ACFR document, and highlights of key fiscal issues affecting the City can be found in the Management's Discussion and Analysis (MD&A) section (ACFR p. 5). The MD&A also provides a discussion and analysis of the City's current fiscal health and includes financial statements and analysis compared to the prior year, along with capital asset and debt administration data.

Throughout this report, pronouncements released by GASB are referred to by issuance number. For example, GASB Pronouncement No. 68 is referenced in this report as GASB 68. A full list of pronouncements can be found on [GASB's website](#).

DISCUSSION & ANALYSIS

There are two methods of displaying the City's financials that are included in the FY 2022 ACFR, 1) Government Wide Statements and 2) Fund Financial Statements. The discussion below is organized by these two reporting standards and the results contained within. To assist in the terminology below is a brief overview of these; each of these displays of the City's financial statements are governed by Generally Accepted Accounting Principles (GAAP) as modified regularly by the Governmental Accounting Standards Board (GASB). Neither of these views are the same as the City's annual budget; however, Fund Financial Statements is most closely aligned.

Government Wide Financial Statements

- *Governmental Activities* – City’s basic services generally funded by taxes, and/or by specific program revenues such as fees and grants (full accrual) + includes portion of internal service funds
- *Business Type Activities* – City’s enterprise activities which are funded in whole or in part by fees charged to external parties (full accrual) + includes portion of internal service funds

Fund Financial Statements

- *Governmental Funds* – similar to “governmental activities” EXCEPT on a modified accrual basis of accounting + excludes internal service funds.
- *Proprietary Funds* – same as “business type activities” EXCEPT includes internal service funds. Includes what we refer to as “enterprise funds” (full accrual)

Government-wide Statements

Statement of Net Position

The Statement of Net Position presents information of all the City’s assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources, with the reported net position.

The City’s net position was \$1.271 billion on June 30, 2022, compared to a balance of \$1.230 billion on June 30, 2021. The total increase of \$40.6 million, or 3.2%, consists of \$51.0 million from governmental activities partially offset by a decrease of \$10.4 million from business-type activities.

The largest portion of the City’s net position (\$1.175 billion or 92.4%) is its net investment in capital assets such as land, buildings, infrastructure, vehicles, and intangible assets – right to use leased assets less any related outstanding debt that was used to acquire these assets. The restricted portion of the City’s net position (\$76.2 million or 6.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$20.0 million, across all funds, representing 1.6% of the City’s net position, is unrestricted and may be used to meet the City’s ongoing obligations to its citizens and creditors.

The unrestricted net position for the governmental activities portion is negative mainly due to the recognition of the net pension liabilities required by GASB Statement No. 68 and net OPEB liabilities required by GASB Statement No. 75. The \$102.7 million deficits for governmental activities include the \$286.6 million impact of net pension liabilities and its related deferred outflows of resources (GASB 68) and \$78.3 million impact of net OPEB liabilities and its related deferred outflows of resources and deferred inflows of resources (GASB 75). Excluding these impacts, the Governmental Activities’ unrestricted net position is \$262.2 million.

The net position of both governmental and business type activities reduced by \$50.6 million due to unrealized market losses on the City’s investment. Actual investment earnings on the City’s portfolio are \$9.0 million; however, the net interest earnings reported in the financial

statement have a negative balance of \$41.6 million due to accounting for unrealized losses on the City's investments. Per GASB 31, public agencies are required to report the change in the valuation of City's portfolio, and due to the rising interest rates, the portfolio's fixed income securities have a "paper" loss as of June 30. The City's long-standing practice is to hold investments to maturity and due to this practice, there will likely be no actual losses incurred on these investments.

TABLE 1
STATEMENT OF NET POSITION
As of June 30, 2022
(in millions)

	Governmental Activities		Business-type Activities		Government-wide Totals	
	2022	2021	2022	2021	2022	2021
Cash and investments	\$ 400.7	\$ 443.4	\$ 241.3	\$ 285.6	\$ 642.0	\$ 729.0
Other assets	82.4	76.6	50.7	47.7	133.1	124.3
Capital assets	674.2	602.0	735.2	693.2	1,409.4	1,295.2
Deferred outflows	59.2	60.8	24.7	21.1	83.9	81.9
Total assets and deferred outflows	1,216.5	1,182.8	1,051.9	1,047.6	2,268.4	2,230.4
Net pension and OPEB liabilities	316.5	438.2	109.5	159.7	426.0	597.9
Long-term debt	210.2	217.5	64.3	68.9	274.5	286.4
Other liabilities	102.9	87.6	33.1	23.8	136.0	111.4
Deferred inflows	112.8	16.3	48.2	6.4	161.0	22.7
Total Liabilities	742.4	759.6	255.1	258.8	997.5	1,018.4
Net Position						
Net investment in capital assets	503.9	480.6	670.8	642.0	1,174.7	1,122.6
Restricted	72.9	80.3	3.3	3.4	76.2	83.7
Unrestricted	(102.7)	(137.7)	122.7	161.8	20.0	24.1
Total Net Position	\$ 474.1	\$ 423.2	\$ 796.8	\$ 807.2	\$ 1,270.9	\$ 1,230.4

Statement of Activities

The major sources of the City's revenues are Program Revenues and General Revenues. Program Revenues consist of charges for services (both governmental and business type activities) as well as operating and capital grants and contributions. General Revenues include property tax, sales tax, utility user tax, transient occupancy tax, documentary transfer tax, other taxes and miscellaneous revenue.

Revenues for the City in FY 2022 were \$565.4 million, an increase of \$11.7 million or 2.1% above FY 2021, due to a \$21.6 million increases in Governmental Activities partially offset by a \$9.9 million decrease from Business Activities. Governmental Activities increased \$21.6 million due to program and general revenues. The increases in program revenues are due to resumption and increase of in-person classes, paramedic revenues, ARPA funding totaling \$8.2 million, and \$25.7 million donation from Friends of the Junior Museum & Zoo (JMZ). The increases in general revenues are from major taxes partially offset by decreases in investment earnings from the negative impact of fair market value adjustments. Business Activities revenue decreased \$9.9 million mainly due to decreases in Water Fund revenues resulting from conservation efforts in response to the drought. This was partially offset by an increase in Gas Fund revenues driven by a 3% rate increase and portion of the commodity price increases is passed through to customers. Another factor driving the decrease of the revenue is the decrease of investment earnings resulting from negative fair market value adjustments.

Expenses for the City in FY 2022 were \$524.8 million, a decrease of \$24.1 million or 4.4% below FY 2021, due to a \$45.6 million decrease from Governmental Activities that is partially offset by a \$21.6 million increase from Business-type expenses.

The decrease in Governmental Activities expenses is mainly due to the decrease in pension and OPEB related adjustments for GASB 68 and GASB 75, primarily due to higher actual than expected interest earnings of City's pension and OPEB plan.

Administrative Services expenses decreased \$8.0 million, primarily due to the \$12.6 million set aside established in FY 2021 for *Green v. City of Palo Alto*. Additional expenses of \$4.9 million were set aside in 2022 to settle the case. The City has a total claim payable of \$17.5 million for the Green case on its governmental activities' financial statements

Public Works expenses, which decreased \$21.5 million mainly due to review and reclassification of construction in progress balances and determined that certain expenses, specifically various repairs and maintenance of streets, sidewalks, facilities, and parks, should not have been capitalized per Generally Accepted Accounting Principles (GAAP). The expense to correct these construction progress balances was recorded as part Public Works functional expenses in FY 2021. These actions are consistent with recent staff review, affirmed by an audit completed by BakerTilly (the City Auditor), to more accurately account for capitalized assets.

The increase of Business Type Activities is driven by several cost categories and resulted in higher costs compared to prior year, including energy purchase cost, operations and maintenance in Electric Fund, and commodity purchases in Gas Fund. These increases were partially offset by the decrease in pension and OPEB related adjustments for GASB 68 and GASB 75, primarily due to higher actual than expected interest earnings of City's pension and OPEB plan.

TABLE 2
Statement of Activities for the Year Ended June 30
(in millions)

	<u>2022</u>	<u>2021</u>	<u>Increase / (Decrease)</u>
Revenues			
Program Revenues	\$ 462.7	\$ 423.2	\$ 39.5
General Revenues	102.7	130.5	(27.8)
Total Revenues	<u>\$ 565.4</u>	<u>\$ 553.7</u>	<u>\$ 11.7</u>
Expenses			
Governmental Activities			
City Council	\$ (0.1)	\$ 0.2	(0.3)
City Manager	1.6	2.5	(0.9)
City Attorney	2.0	2.3	(0.3)
City Clerk	0.4	0.7	(0.3)
City Auditor	0.5	0.6	(0.1)
Administrative Services	15.0	23.0	(8.0)
Human Resources	1.6	2.5	(0.9)
Public Works	31.2	52.7	(21.5)
Planning and Development Services	15.7	18.1	(2.4)
Office Of Transportation	4.4	3.6	0.8
Police	35.1	43.6	(8.5)
Fire	31.2	37.1	(5.9)
Community Services	31.9	30.3	1.6
Library	9.5	11.1	(1.6)
Interest and Other Expense	9.0	6.3	2.7
Business Type Activities			
Water	41.9	43.6	(1.7)
Electric	169.1	156.1	13.0
Fiber Optics	2.2	2.5	(0.3)
Gas	40.7	28.6	12.1
Wastewater Collection	18.3	19.6	(1.3)
Wastewater Treatment	27.1	28.4	(1.3)
Refuse	30.0	29.1	0.9
Storm Drainage	4.6	4.9	(0.3)
Airport	1.9	1.5	0.4
Total Expenses	<u>\$ 524.8</u>	<u>\$ 548.9</u>	<u>\$ (24.1)</u>
Change in Net Position	<u>\$ 40.6</u>	<u>\$ 4.8</u>	<u>\$ 35.8</u>

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2022 amounts to \$1.409 billion (net of accumulated depreciation), which is a \$98.9 million or 7.5% increase over FY 2021. The increase was primarily due to various projects such as the Charleston Arastradero Corridor, Public Safety Building, Highway 101 Bicycle and Pedestrian Bridge, Water Main Replacement, Smart Grid Technology Installation, Electric System Improvements, and Primary Sedimentation Tank Rehabilitation. In addition, due to the \$29.2 renovated Junior Museum and Zoo (JMZ) of which \$25.7 million was a donation from the Friends of JMZ

City implemented GASB 87 – Leases which resulted in an increase of Intangible Asset – right to use leased assets amounting to \$9.1 million, net of amortization.

TABLE 3
Capital Assets

	<u>2022</u>	<u>2021</u>	<u>(Decrease)</u>
Governmental activities			
Land and improvements	\$ 82.1	\$ 82.1	\$ -
Street trees	15.0	14.8	0.2
Construction in progress	121.9	143.4	(21.5)
Building and improvements	350.6	272.1	78.5
Intangible assets	3.8	3.8	-
Equipment	82.9	80.3	2.6
Roadway network	359.1	335.3	23.8
Recreation and open space network	37.0	35.2	1.8
Less accumulated depreciation	(385.2)	(365.0)	(20.2)
Intangible assets-right to use leased assets	9.8	-	9.8
Less accumulated amortization	(2.8)	-	(2.8)
Total Governmental Activities	<u>674.2</u>	<u>602.0</u>	<u>\$ 72.2</u>
Business-Type Activities			
Land	\$ 5.0	\$ 5	\$ -
Construction in progress	136.9	129.0	7.9
Buildings and improvements	80.5	74.5	6.0
Infrastructure	0.6	0.6	-
Transmission, distribution and treatment systems	948.9	914.8	34.1
Less accumulated depreciation	(438.8)	(415.4)	(23.4)
Intangible assets-right to use leased assets	2.9	-	2.9
Less accumulated amortization	(0.8)	-	(0.8)
Total Business-Type Activities	<u>\$ 735.2</u>	<u>\$ 708.5</u>	<u>\$ 26.7</u>
Total Capital Assets	<u>\$ 1,409.4</u>	<u>\$ 1,310.5</u>	<u>\$ 98.9</u>

Liabilities

As of June 30, 2022, the City's liabilities totaled \$831.6 million, which is a \$164.1 million or 16.5% decrease below FY 2021. The decrease was due City's Net Pension Liabilities and Net Other Post-Employment Benefit (OPEB) Liabilities decreasing by \$171.9 million, driven primarily due to investment earnings that increased the OPEB Plan's Net Position, scheduled debt service payments, and refinancing activities. The decrease was partially offset by an increase of lease liabilities amounting to \$10.0 million due to GASB 87 – Leases implementation.

Fund Financial Statements

General Fund

General Fund Reserves

The General Fund ended with a net Budget Stabilization Reserve (BSR) surplus of \$14.2 million, when compared to estimates used in the development of the FY 2023 Adopted Budget and the Councils target reserve level of 18.5% of budgeted expenses. Overall, at the end of the current fiscal year, the General Fund's fund balance was \$100.1 million of both restricted and unrestricted balances. This fund balance is comprised of several reserves: the Budget Stabilization Reserve (BSR or City's general reserve), reappropriations, notes and loans, inventory, prepaid items, and other general government special purpose reserves (this includes reserves for encumbrances and donations). In FY 2022, \$1.7 million was set aside for the Reserve for Excess Educational Revenue Augmentation Fund (ERAF) for the at-risk amount related to the lawsuit filed in November 2021 by the California School Boards of Association and its Education Legal Alliance against the Controller of the State of California for over the calculation methodology of the Excess ERAF.

As described in the BSR reserve policy approved by the Council, the reserve is to remain 15-20% of the General Fund operating budget, with a target goal of 18.5%. Any reserve balance in excess of the 18.5% target may be transferred to the Infrastructure Reserve (IR) in the Capital Improvement Fund, and/or the City's Section 115 Pension Trust, as outlined in the Pension Funding Policy at the discretion of the City Manager.

The FY 2023 Adopted Operating Budget projected a \$54.7 million BSR balance as of June 30, 2022, compared to the actual balance of \$72.8 million (this is a component of the General Fund, fund balance noted above). The BSR is above projected levels due to higher major taxes and program revenues, and lower expenses due to higher vacancy savings and lower expenses across departments for internal costs to run the City such as utilities, printing and mailing, and vehicle maintenance.

Much of this variance was forecasted, discussed, and a core component of the FY 2023 Adopted Budget and two-year budget balancing strategy. The Council recognized these higher than budgeted estimate and used these funds to bridge the transition as the City and community emerged from the pandemic while ensuring stability for the organization. The chart below outlines the already approved uses of the BSR in FY 2023. These adjustments, totaling \$13.0

million, results in a BSR balance of \$59.8 million; approximately 24.2% of the FY 2022 Adopted expenses of \$247.4 million. This level is approximately \$14.2 million above the target level of 18.5% (\$45.6 million). Micro and macro-economic conditions are adjusting daily, with rising inflation, changes in jobs, and recessionary trends creating significant uncertainty. As the State of California Legislative Analyst Office (LAO) wrote in their annual Fiscal Outlooks for California “Economic Conditions Weigh on Revenues, [the] booming economy has led to high inflation...efforts to tame inflation are slowing the economy...inflation pressures remain, raising risk of recession...fiscal outlooks revenues balance competing risks.”² Therefore, below are recommended adjustments in line with the City Manager’s authority for transfer of excess BSR, adjusted for a recommendation to reserve funds to safeguard the stability the City has strived to achieve in the recent year by re-establishing an economic uncertainty reserve. Staff anticipates returning to Council in February 2023 with the FY 2023 Mid-Year Review and recommendations in alignment with the allocation below for the appropriation of BSR funds above the 18.5% level. Staff do recommend a transfer to the Infrastructure Reserve as inflationary costs are impacting capital project needs including anticipated significant price increases in the Automated Parking Guidance Project, as well as a need to provide safety improvements to critical assets such as the artificial turf playing fields.

² The 2023-24 Budget California’s Fiscal Outlook, California Legislative Analyst’s Office (LAO), November 16, 2022, <https://lao.ca.gov/Publications/Report/4646>

TABLE 4 Year-End Budget Stabilization Reserve (BSR) Summary (in millions)	
General Fund BSR Balance, June 30, 2022	\$72,835
Uses of the FY 2022 Surplus	
<i>FY 2023 Approved Adjustments to the BSR Balance</i>	
FY 2023 Adopted Budget	(\$9,072)
FY 2023 Services Reinvestment	(\$3,700)
Downtown Streets Team (CMR 14526)	(\$167)
Reappropriations (CMR 14728)	(\$100)
Subtotal: Approved Adjustments to the BSR Balance	(\$13,039)
Subtotal: BSR Balance, After Approved Adjustments	\$59,796
<i>FY 2023 RECOMMENDED Adjustments to the BSR Balance</i> <i>(to be considered in FY 2023 Mid-Year Budget)</i>	
Reserve for Economic Uncertainty	(\$5,000)
Transfer to Section 115 Pension Trust Fund	(\$5,000)
Transfer to Infrastructure Reserve (IR) in the Capital Improvement Fund	(\$4,000)
Subtotal: RECOMMENDED Adjustments to the BSR Balance	(\$14,000)
Current Projected FY 2022 BSR Level, (June 30, 2023)	\$45,796

General Fund Revenues

General Fund revenues for FY 2022 were \$190.4 million, which is \$23.6 million or 14.1% higher than the prior year. Year-over-year changes in each of the major tax revenue categories are summarized in the following table. The majority of these higher than budgeted revenues were forecasted and discussed as part of the FY 2023 Adopted Budget, in May 2022, staff and the Finance Committee discussed use of a projected \$14 million excess revenues to develop a two-year budget strategy and begin reinvestments.

TABLE 5 General Fund Major Tax Revenues (in millions)			
Category	FY 2022	FY 2021	% Change Increase (Decrease)
Property tax	\$ 59,353	\$ 56,572	4.9%
Sales tax	32,705	29,127	12.3%
Utility user tax	15,599	14,642	6.5%
Transient occupancy tax	16,946	5,179	227.2%
Documentary transfer tax	11,990	10,627	12.8%

Property tax revenue increased \$2.8 million or 4.9% due to property assessed value growth that was driven by the change of ownership, and an increase of \$1.1 million in the Excess Educational Revenue Augmentation Fund (ERAF) distribution.

Sales tax receipts were \$3.6 million or 12.3% higher than the prior year. The increase is due to the strong performance of apparel and department stores, furniture/appliance, and food products categories which include restaurants, and transportation such as new auto sales. The City's revenue base also benefits from many high-end goods and dining options at regional destinations, such as Stanford Shopping Center.

Utility user tax revenues are \$1.0 million or 6.5%, higher compared to prior year. The economic recovery resulted in increased business activity and workers returning to the office/business site resulting an increased use of services subject to UUT.

Transient occupancy tax (TOT) ended the year \$11.8 million or 227% higher than prior year. The increase is exceptionally high because this is compared to a time when there was a high-level of health, safety and travel restrictions however remains lower than the pre-pandemic levels. In FY 2022, the average occupancy rate was 63.5%, a 57.4% increase and the average room rate was \$194.89, a 68.6% increase over the prior year. The entire 15.5% TOT rate from new hotels, plus 3.5% from all other hotels, has been allocated to the Infrastructure Plan pursuant to City Council direction. This results in additional TOT for the Infrastructure plan of \$2.2 million. These additional funds, coupled with the recommended excess BSR funds will assist in ensuring capital projects may continue as planned, adjusting for the rising costs due to the current inflationary economic conditions. The following is a comparative breakdown of the allocation of transient occupancy tax receipts:

TABLE 6 Allocation of Transient Occupancy Tax			
	FY 2022	FY 2021	% Change Increase (Decrease)
General Fund	\$ 8,828	\$ 2,796	215.7 %
Infrastructure Plan			
New hotels – 12%	4,292	1,214	253.5 %
All hotels – 3.5%	3,826	1,169	227.3 %
<i>Subtotal Infrastructure</i>	<i>8,118</i>	<i>2,383</i>	<i>240.7 %</i>
Total TOT Receipts	<u>\$ 16,946</u>	<u>\$ 5,179</u>	227.2 %

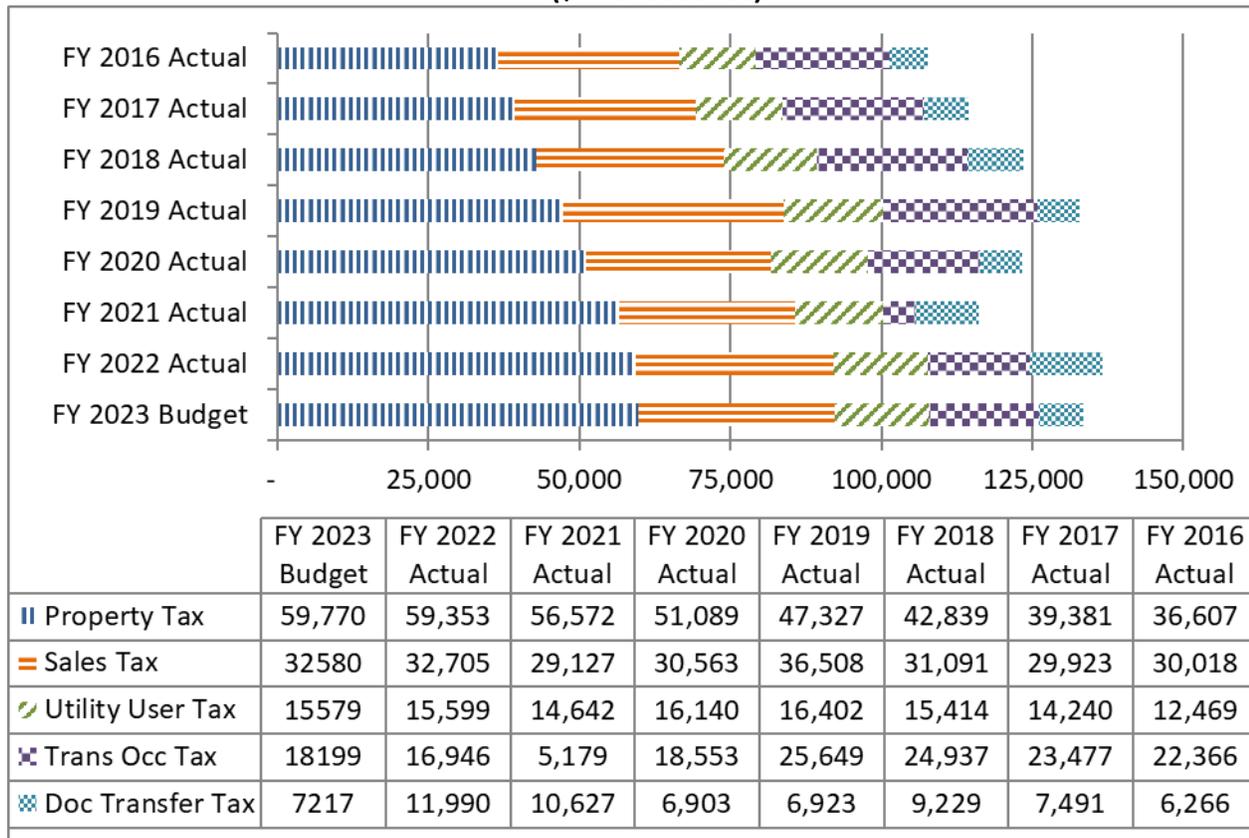
Documentary transfer tax increased \$1.4 million or 12.8% compared to prior year due to nine large commercial property transactions that occurred in FY2022. The number of transactions was comparable to the prior year This revenue source is volatile since it is highly dependent on sales volume and property values and the mix of commercial and residential sales.

Charges for services increased \$4.2 million or 16.7% compared to prior year mainly due to resumption of program and classes and offered both virtually and in-person with the lifting of many State and County Public Health restrictions.

Other revenues decreased \$2.8 million or 56.0% compared to prior year, due to decrease of investment earnings, mainly from unrealized market losses on investments, partially offset by the American Rescue Plan Act distribution of \$8.2 million recognized as revenue in FY 2022.

The following is a chart which depicts the relative contribution of each tax category over the past seven years (2016 through 2022), as well as the current budgeted year (2022).

CHART 1
General Fund Tax Revenues
Actual Fiscal Years 2016 – 2022
Budget Fiscal Year 2022
(\$ in thousands)



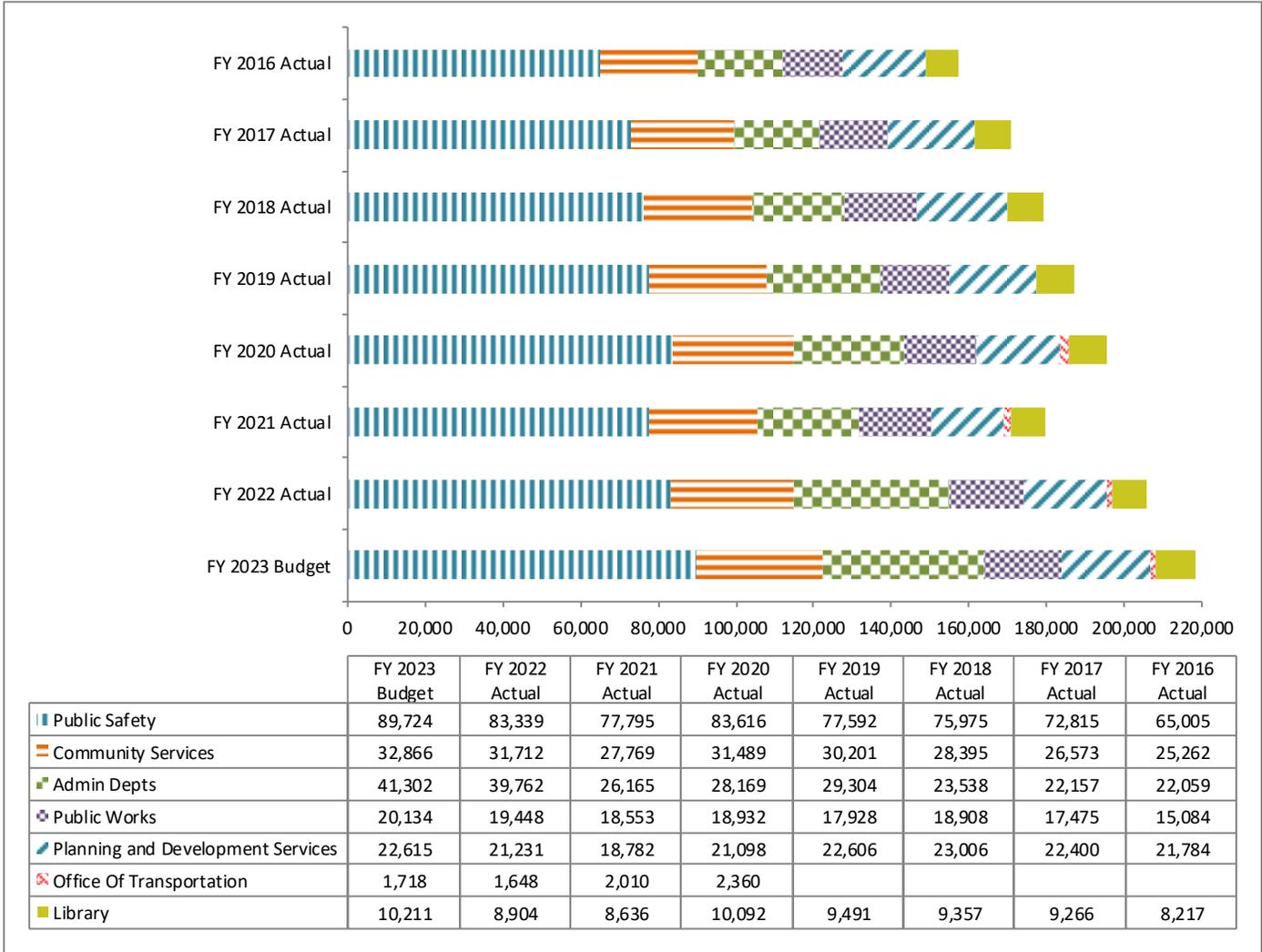
General Fund Expenditures

General Fund expenditures for FY 2022, including encumbrances and reappropriations, totaled \$209.5; an increase of 14.0% from the prior year, primarily due to the increase in salary and benefit costs, and indirect charges. The increase in salaries and benefits are due to overtime, specifically police and fire, paid leave, and pension. The indirect charges were higher in the

current year primarily due to liability insurance charges, vehicle equipment maintenance service and information technology (IT) support. The increase in liability insurance charges is based on actuarial analysis of the City's liabilities costs over the past few years and provides an 85 percent confidence level. Another factor driving the increase was due to reappropriations of \$12.4 million claims for a class action lawsuit.

The Adopted Budget of \$194.4 million was increased to the Final Adjusted Budget amount of \$215.1 million, primarily due to increased funding from prior year encumbered and reappropriated balances and increases for several departments throughout the year also occurred based on City Council direction per recommendations contained in City Manager Reports. The following is a chart which compares actual departmental costs, including encumbrances and reappropriations, excluding Cubberley lease over the past seven years and budgeted costs for FY 2023.

CHART 2
General Fund Departments
Actual Expenditures Fiscal Years 2016– 2022 (including reappropriations and encumbrances)
Budgeted Expenditures Fiscal Year 2023
(\$ in thousands)



The Development Services Department was combined with the Planning and Community Environment in FY 2020 and renamed to the Planning and Development Services Department.
The Office of Transportation Department, which previously was a division of the Planning and Community Environment Department was established in FY 2020.

Capital Projects Fund

The Capital Projects Fund ended the year with a fund balance of \$117.9 million, comprised of the following:

TABLE 7 Capital Projects Fund – Fund Balance	
Fund Balance Component	Amount (\$ in millions)
Restricted for Library projects	\$ 251
Reserved for Roth Building rehabilitation	5,184
Reserved for Cubberley expenditures	5,720
Restricted for Public Safety Building	48,216
Assigned for all other Capital projects	58,567
Total Capital Projects Fund Balance	\$ 117,938

Restricted for Library projects \$0.3 million is the portion of fund balance dedicated to the remaining Mitchell Park Library expenditures which, if considered bond expenses will be paid for with cash from bond proceeds. Non-bondable expenditures such as salaries and benefits are funded from the Infrastructure Reserve (ending fund balance in the Capital Projects Fund), as established at the time of the bond issuance. The Mitchell Park Library project is already completed but the roof defects need to be fixed using this reserve.

Restricted for Public Safety Building \$48.2 million represents the remaining bond funding dedicated to the construction of the public safety building. This project is currently under construction with estimated completion in Fall 2023.

Assigned for all other Capital projects \$58.6 million represents the amount of unspent funds associated with Adopted Capital projects and other noted items. Outside funding sources such as grants, donations and future debt issues are not factored into this component of the fund balance until they are received.

Enterprise Funds

The City's Enterprise Funds reported a total Net Position of \$790.7 million, a \$12.6 million, or 1.6% decrease from the prior year. The table below summarizes the overall change in Net Position for each Enterprise Fund. Compared to FY 2021, the Change in Net Position for Enterprise funds decreased \$34.8 million driven primarily by the Electric Fund, Water, Fiber Optics and Gas Funds – details of these funds are summarized following this table.

TABLE 8
ENTERPRISE FUNDS
Change in Net Position for the Year Ended June 30
(in millions)

Fund Name	2022	2021	Increase/ (Decrease)
Water	\$ 0.7	\$ 6.6	\$ (5.9)
Electric	(24.2)	(4.8)	(19.4)
Fiber Optics	(1.2)	1.5	(2.7)
Gas	(0.6)	3.5	(4.1)
Wastewater Collection	1.2	0.7	0.5
Wastewater Treatment	1.4	3.1	(1.7)
Refuse	(0.2)	1.9	(2.1)
Storm Drainage	2.6	3.0	(0.4)
Airport	7.7	6.7	1.0
Total Change in Net Position	\$ (12.6)	\$ 22.2	\$ (34.8)

Overall, Changes in Net Position decreased \$34.8 million for Enterprise Funds, mainly due to accounting adjustments that resulted in over \$21.5 million net unrealized market loss. In addition, the Water Fund experienced lower revenue due to residential conservation efforts. The Electric Fund also reported negative net change from the prior year due to increases in purchases of electricity which were primarily driven by higher than historical forward energy prices (future delivery), increased resource adequacy costs (capacity supply and demand), and lower hydroelectric supply. The Gas Fund showed a \$4.1 million negative change due to higher commodity prices partially offset by a 3% rate increase and increased revenue from a portion of the commodity price increases being passed directly to customers. The Airport Fund reported a \$1.0 million positive net change due to federal grants received for the Apron Reconstruction project.

The table below details the Change in Unrestricted Net Position in the Enterprise Funds. Enterprise Fund Rate Stabilization, Operations and other reserve balances are shown in detail in the ACFR (p. 96). Overall, except for the Wastewater Treatment Fund and the Airport Fund, each Enterprise Funds maintained a positive unrestricted net position balance as of June 30, 2022. Adjustments for the Pension Reserve (as required by GASB 68) and OPEB Reserve (as required by GASB 75) total \$130.2 million and unrealized market losses on investments total \$21.5 million (as required by GASB 31) for all Enterprise Funds and reduce each fund's unrestricted net position.

The Wastewater Treatment Fund reflects a \$14.8 million Unrestricted Reserve deficit and is mainly driven by \$ 26.1 million in Pension Reserves and OPEB Reserves adjustments.

The Airport Fund reports a \$3.0 million Unrestricted Reserve deficit which is attributed to the

\$1.1 million Pension Reserve and OPEB Reserve adjustments. Second, the fund deficit in the Airport Fund is also a result of cumulative fund deficits over the life of the fund as fiscal operations at the airport stabilize and capital projects near completion. The \$7.7 million change in net position of Airport Fund in current year is \$0.6 million from operations and \$7.1 million grants received in current year.

TABLE 8
Enterprise Funds
Changes in Unrestricted (Deficit) Net Position
(In Million)

Fund Name	2022	2021	Increase/ (Decrease)
Water	\$ 27.8	\$ 33.0	\$ (5.2)
Electric	46.5	74.5	(28.0)
Fiber Optics	32.1	34.5	(2.4)
Gas	6.4	11.6	(5.2)
Wastewater Collection	2.1	0.7	1.4
Wastewater Treatment	(14.8)	(10.8)	(4.0)
Refuse	13.9	14.1	(0.2)
Storm Drainage	5.5	4.0	1.5
Aiport	(3.0)	(3.7)	0.7
Total Changes in Reserves (Unrestricted)	\$ 116.5	\$ 157.9	\$ (41.4)

RESOURCE IMPACT

Recommended actions in the report will align the FY 2022 appropriations with final financial activities as outlined in **Attachment B**. Overall, the City ended the FY 2022 in a positive net position.

STAKEHOLDER ENGAGEMENT

The review and writing of this report was coordinated among various divisions within the Administrative Services Department, along with Departments who assisted in staff's analysis. The actions recommended in this report were discussed and communicated to the impacted departments.

ENVIRONMENTAL REVIEW

This is not a project for purposes of the California Environmental Quality Act.

Attachments:

- Attachment A: General Fund Summary (Budget and Actuals)
- Attachment B: Recommended FY 2022 Year-End Budget Actions
- Attachment C: FY2022 Annual Comprehensive Financial Report

Attachment A
Statement of Revenues, Expenditures and Change in Fund Balance - Budget and Actual

	GENERAL FUND SUMMARY (\$000s)						
	FY 2022 Adopted Budget	FY 2022 Adjusted Budget	FY 2022 Rev/Exp Actuals	FY 2022 Allocated Charges	FY 2022 Encum / Reappropriation	FY 2022 Actual Rev/Exp	FY 2022 Actual to Adj Budget Variance
Revenues							
Sales Tax	28,184	28,184	32,705			32,705	4,521
Property Tax	51,228	53,228	59,353			59,353	6,125
Transient Occupancy Tax	8,428	10,647	16,946			16,946	6,299
Documentary Transfer Tax	7,137	7,137	11,990			11,990	4,853
Utility User Tax	14,370	14,370	15,599			15,599	1,229
Other Taxes, Fines and penalties	1,434	1,434	893			893	(541)
Charges for Services	24,515	25,532	29,252		295	29,547	4,015
Permits and Licenses	7,761	8,273	8,529			8,529	256
Investment Earnings	898	898	1,366			1,366	469
Rental Income	14,403	14,403	13,863			13,863	(540)
From Other Agencies	10,277	11,044	10,817			10,817	(226)
Charges to Other Funds	14,165	14,165		13,980		13,980	(185)
Other Revenues	504	526	864	-		864	338
Total Revenues	183,304	189,840	202,178	13,980	295	216,453	26,613
Add: Operating Transfers In	22,546	22,197	22,197			22,197	-
Prior Year Encum / Reappropriation	150	11,101	11,101			11,101	-
Total Source of Funds	206,000	223,138	235,476	13,980	295	249,751	26,613
Expenditures							
City Attorney	3,945	4,466	2,585	1,493	388	4,466	0
City Auditor	972	1,026	489	341	196	1,027	(0)
City Clerk	1,327	1,383	713	375	73	1,161	221
City Council	433	475	219	135	50	404	71
City Manager	3,319	3,833	2,018	1,099	352	3,469	364
Administrative Services	8,923	9,684	5,784	3,193	362	9,338	346
Community Services	31,052	32,789	29,663	230	1,819	31,712	1,077
Fire	35,677	38,566	38,004	163	398	38,565	2
Human Resources	3,878	4,229	2,295	1,308	239	3,843	386
Library	8,903	9,145	8,591	-	313	8,904	241
Office of Transportation	1,747	1,892	1,629	-	19	1,648	244
Planning and Development Services	17,673	21,554	17,770	69	3,393	21,231	322
Police	44,353	45,755	43,557	737	479	44,774	982
Public Works	18,755	20,000	12,037	4,837	2,575	19,448	552
Non-Departmental	13,482	20,253	4,361	-	15,146	19,507	746
Total Expenditures	194,439	215,052	169,714	13,980	25,802	209,497	5,555
Add: Operating Trans Out	4,296	5,498	5,498	-		5,498	-
Transfer to Infrastructure	10,406	12,625	12,625	-		12,625	-
Total Use of Funds	209,141	233,175	187,837	13,980	25,802	227,620	5,555
Net Surplus/(Deficit)	(3,141)	(10,037)	47,638	-	(25,507)	22,131	32,168

Adjustment to Budgetary Basis:

Unrealized gain/loss on investments	(11,960)
Changes in Advances to Other Funds	(202)
GASB 87 impact on net income	89
Current year encumbrance / reappropriations	25,507
Prior Year encumbrances / reappropriations	(11,101)
Change in Fund Balance, GAAP Basis	24,464

Attachment: Attachment A: General Fund Summary (Budget and Actuals) (14632 : Approval of FY 2022 ACFR and Budget YE Adjustments)

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2022 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND (102)			
<i>City Attorney's Office</i>	Contract Services This action reallocates funding as a result of higher than anticipated contract services expenses in FY 2022. These higher expenditures are primarily due to special projects including the Roth Building rehabilitation, wireless ordinance update, employee investigations, and capital project construction contract claims.	\$ -	\$ 103,000
<i>City Auditor's Office</i>	Salaries & Benefits and Contract Services This action reallocates funding as a result of salary and benefit expenses in FY 2022 that were unbudgeted as well as higher than anticipated contract services expenses related to FY 2021 audits that were paid during FY 2022.	\$ -	\$ 25,000
<i>Community Services</i>	Departmental Expense Savings This action reallocates departmental cost savings within the General Fund in order to offset departments with higher than anticipated expenses in FY 2022. The Community Services Department realized a net savings, primarily in salaries and benefits, as a result of a large number of vacancies as well as savings from lower than anticipated utility charges.	\$ -	\$ (253,000)
<i>Fire</i>	Charges for Services and Revenue from Other Agencies/Salaries & Benefits This action reallocates funding as a result of higher than anticipated salary and benefit expenses and recognizes and appropriates higher than anticipated paramedic services revenue and revenue from the State of California. The higher expenditures, specifically in overtime costs, are primarily due to an above average amounts of vacancies, employee leave, and employee turnover (voluntary and retirement) as maintaining minimum staffing levels requires the use of overtime for backfill. The higher expenditures are partially offset by increased paramedic transport services revenue as well as additional revenue from the State of California as reimbursements for participating in Strike Teams and other statewide fire services.	\$ 600,000	\$ 725,000
<i>Non-Departmental</i>	Transient Occupancy Tax Revenue/Transfer to Capital Improvement Fund This action increases the transfer to the Capital Improvement Fund as it relates to Transient Occupancy Tax (TOT) revenues earmarked for city-wide infrastructure improvements due to higher than anticipated TOT collections in FY 2022.	\$ 2,219,000	\$ 2,219,000
GENERAL FUND (102) SUBTOTAL		\$ 2,819,000	\$ 2,819,000

Attachment: Attachment B: Recommended FY 2022 Year-End Budget Actions (14632 : Approval of FY 2022 ACFR and Budget YE Adjustments)

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2022 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
CAPITAL IMPROVEMENT FUNDS			
<u>GENERAL FUND CAPITAL IMPROVEMENT FUND (471)</u>			
<i>Capital</i>	Capital Improvement Project Adjustments This action reflects the combined impact from adjustments to projects as outlined in Attachment B, Exhibit 2.	\$ -	\$ 419,000
<i>Capital</i>	Transfer from General Fund This action increases the transfer from the General Fund related to TOT revenue Council earmarked to use for city-wide infrastructure improvements due to actual revenue collected being higher than budgeted in FY 2022.	\$ 2,219,000	\$ -
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ 1,800,000
GENERAL FUND CAPITAL IMPROVEMENT FUND (471) SUBTOTAL		\$ 2,219,000	\$ 2,219,000
<u>CUBBERLEY PROPERTY INFRASTRUCTURE FUND (472)</u>			
<i>Public Works</i>	Revenue from Other Agencies/Salaries and Benefits This action appropriates funding for increased costs related to facilities maintenance work at the Cubberley Property and recognizes and appropriates increased revenue from the Palo Alto United School District (PAUSD) to reimburse the City for their share of the costs as outlined in the Cubberley lease agreement between the City and PAUSD.	\$ 22,000	\$ 22,000
CUBBERLEY PROPERTY INFRASTRUCTURE FUND (472) SUBTOTAL		\$ 22,000	\$ 22,000

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2022 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
ENTERPRISE FUNDS			
<u>ELECTRIC FUND (513 & 523)</u>			
<i>Capital</i>	Capital Improvement Project Adjustments This action reflects the combined impact from adjustments to projects as outlined in Attachment B, Exhibit 2.	\$ -	\$ 145,000
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ (145,000)
ELECTRIC FUND (513 & 523) SUBTOTAL		\$ -	\$ -
<u>FIBER OPTICS FUND (533)</u>			
<i>Capital</i>	Capital Improvement Project Adjustments This action reflects the combined impact from adjustments to projects as outlined in Attachment B, Exhibit 2.	\$ -	\$ 18,000
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ (18,000)
FIBER OPTICS FUND (533) SUBTOTAL		\$ -	\$ -
<u>GAS FUND (514 & 524)</u>			
<i>Capital</i>	Capital Improvement Project Adjustments This action reflects the combined impact from adjustments to projects as outlined in Attachment B, Exhibit 2.	\$ -	\$ 4,000
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ (4,000)
GAS FUND (514 & 524) SUBTOTAL		\$ -	\$ -
<u>REFUSE FUND (525)</u>			
<i>Public Works</i>	Refuse Collection, Hauling, and Disposal As described in CMR 14275, at the end of each fiscal year staff estimates the expenses needed for the next contract year for GreenWaste of Palo Alto (GWPA) and conducts a technical clean-up of expenses to ensure that any excess carryforward amount from the contract encumbrance is returned to the fund balance. An error occurred in FY 2021 and too much was returned to the fund balance, leaving insufficient funds for the contract in FY 2022. CMR 14275 approved a \$0.9 million budget adjustment but this \$1.4 million technical correction augments the adjustment made in CMR 14275 to fully align the budget with the total expenses for services provided by GWPA in FY 2022.	\$ -	\$ 1,443,000
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ (1,443,000)
REFUSE FUND (525) SUBTOTAL		\$ -	\$ -

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2022 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
ENTERPRISE FUNDS			
<u>STORMWATER MANGEMENT FUND (528)</u>			
<i>Capital</i>	Capital Improvement Project Adjustments This action reflects the combined impact from adjustments to projects as outlined in Attachment B, Exhibit 2.	\$ -	\$ 5,000
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ (5,000)
STORMWATER MANGEMENT FUND (528) SUBTOTAL		\$ -	\$ -
<u>WASTEWATER COLLECTION FUND (527)</u>			
<i>Capital</i>	Capital Improvement Project Adjustments This action reflects the combined impact from adjustments to projects as outlined in Attachment B, Exhibit 2.	\$ -	\$ 90,000
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ (90,000)
WASTEWATER COLLECTION FUND (527) SUBTOTAL		\$ -	\$ -
<u>WATER FUND (522)</u>			
<i>Capital</i>	Capital Improvement Project Adjustments This action reflects the combined impact from adjustments to projects as outlined in Attachment B, Exhibit 2.	\$ -	\$ 145,000
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ (145,000)
WATER FUND (522) SUBTOTAL		\$ -	\$ -

Attachment: Attachment B: Recommended FY 2022 Year-End Budget Actions (14632 : Approval of FY 2022 ACFR and Budget YE Adjustments)

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2022 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
INTERNAL SERVICE FUNDS			
<u>VEHICLE REPLACEMENT & MAINTENANCE FUND (681)</u>			
<i>Capital</i>	Capital Improvement Project Adjustments	\$ 140,000	\$ 140,000
	This action reflects the combined impact from adjustments to projects as outlined in Attachment B, Exhibit 2.		
VEHICLE REPLACEMENT & MAINTENANCE FUND (681) SUBTOTAL		\$ 140,000	\$ 140,000
<u>WORKERS' COMPENSATION FUND (688)</u>			
<i>Human Resources</i>	Claims Costs/Reimbursements	\$ 115,000	\$ 115,000
	This net-neutral action increases the estimate for workers' compensation claims by \$115,000, from \$5.9 million to \$6.0 million, due to higher than anticipated claims costs in FY 2022. This amount is fully offset by additional revenue for excess insurance reimbursements received during the period.		
WORKERS' COMPENSATION FUND (688) SUBTOTAL		\$ 115,000	\$ 115,000

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2022 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
SPECIAL REVENUE FUNDS			
<u>PUBLIC ART FUND (207)</u>			
<i>Community Services</i>	Contract Services This action increases the appropriation for contract services in the Public Art Fund to align with the costs associated with the City's CodeArt Festival.	\$ -	\$ 48,000
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ (48,000)
PUBLIC ART FUND (207) SUBTOTAL		\$ -	\$ -

ATTACHMENT B, EXHIBIT 1

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2022 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
DEBT SERVICE & AGENCY TRUST FUNDS			
<u>2021 PUBLIC SAFETY BUILDING COP FUND (363)</u>			
<i>Administrative Services</i>	Debt Service Payment This action appropriates funding to cover the capitalized interest payment for the Certificates of Participation to fund the New Public Safety Building capital project (PE-15001). These funds were set aside as part of bond sale in this Fund in order to make this payment; however, they were not appropriated as part of the FY 2022 Budget.	\$ -	\$ 3,133,000
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ (3,133,000)
2021 PUBLIC SAFETY BUILDING COP FUND (363) SUBTOTAL		\$ -	\$ -
<u>LIBRARY PROJECTS FUND (370)</u>			
<i>Administrative Services</i>	Bond Proceeds/Debt Service Payment This action recognizes and appropriates bond proceed revenue from refinancing of Library General Obligation (GO) Bonds (CMR 13438). This action also appropriates funding to pay off the previous GO Bond amount. The refinancing occurred in June 2022, so this action is needed to true up the budget with the actual amounts for the bond sales.	\$ 41,197,000	\$ 44,071,000
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ (2,874,000)
LIBRARY PROJECTS FUND (370) SUBTOTAL		\$ 41,197,000	\$ 44,071,000
<u>UNIVERSITY AVENUE PARKING ASSESSMENT AGENCY FUND (775)</u>			
<i>Administrative Services</i>	Contract Services This action increases the appropriation for Contract Services within the fund to align budget levels with actual expenditures in FY 2022.	\$ -	\$ 2,000
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ (2,000)
UNIVERSITY AVENUE PARKING ASSESSMENT AGENCY FUND (775) SUBTOTAL		\$ -	\$ -

Attachment: Attachment B: Recommended FY 2022 Year-End Budget Actions (14632 : Approval of FY 2022 ACFR and Budget YE Adjustments)

ATTACHMENT B, EXHIBIT 2

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2022 CAPITAL IMPROVEMENT PROGRAM

Project Number	Title	Revenue	Expense	Comments
CAPITAL IMPROVEMENT FUND				
PE-19002	Animal Shelter Renovation		\$ 74,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
FD-21000	Automated External Defibrillators		\$ (50,000)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PE-18006	Byxbee Park Completion		\$ (500,000)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PF-14004	Cal Avenue Parking District Parking Improvements		\$ 1,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PG-14002	Cameron Park Improvements		\$ 16,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
AS-10000	Capital Improvement Fund Administration		\$ (1,040,000)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PE-13011	Charleston/Arastradero Corridor Project		\$ 205,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PE-20001	City Bridge Improvements		\$ (19,000)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PE-09003	City Facility Parking Lot Maintenance		\$ (61,000)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PE-17010	Civic Center Electrical Upgrade & EV Charger Installation		\$ 6,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PE-18016	Civic Center Fire Life Safety Upgrades		\$ 34,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PE-15020	Civic Center Waterproofing and Repairs		\$ 114,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PG-18001	Dog Park Installation		\$ 36,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PL-14000	El Camino/Churchill Enhanced Bikeway		\$ (518,000)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
FD-14002	Fire Ringdown System Replacement		\$ 14,000	Increase to project due to higher than anticipated contract service expenditures to close out the project.
PE-15003	Fire Station No. 3 Replacement		\$ 87,000	Increase to project due to higher than anticipated contract service expenditures to close out the project.
PE-18002	High and Bryant Street Garages Waterproofing and Repairs		\$ 6,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PE-11011	Highway 101 Pedestrian/Bicycle Overpass Project		\$ 524,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures (\$315k). Increase to project due to higher than anticipated contract service expenditures to close out the project (\$209k)

Attachment: Attachment B: Recommended FY 2022 Year-End Budget Actions (14632 : Approval of FY 2022 ACFR and Budget YE Adjustments)

ATTACHMENT B, EXHIBIT 2

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2022 CAPITAL IMPROVEMENT PROGRAM

Project Number	Title	Revenue	Expense	Comments
LB-21000	Library Automated Materials Handling		\$ (50,000)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PF-17000	Municipal Service Center A, B, & C Roof Replacement		\$ 80,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PE-18000	New California Avenue Area Parking Garage		\$ 34,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
OS-00001	Open Space Trails & Amenities		\$ 135,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
OS-09001	Off-Road Pathway Resurfacing and Repair		\$ (16,000)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PG-09002	Park and Open Space Emergency Repairs		\$ 37,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PG-19000	Park Restroom Installation		\$ (71,000)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PG-14000	Ramos Park Improvements		\$ 29,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PE-08001	Rinconada Park Improvements		\$ 236,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures (\$127k). Increase to project with corresponding reduction in FY23 due to project expenses for construction oversight anticipated in FY23 being completed in FY22 (\$109k). FY23 reduction action approved by Council on 10/24/22 in CMR 14728.
PO-89003	Sidewalk Repairs		\$ 533,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PE-86070	Street Maintenance		\$ 518,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
PE-21004	University Avenue Streetscape Update		\$ 25,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures.
	Total	\$ -	\$ 419,000	

ELECTRIC FUND				
EL-06001	115 kV Electric Intertie		\$ 28,000	Increase to project due to higher than anticipated expenditures.
EL-19001	Colorado Power Station		\$ (730,000)	Decrease to project due to lower than anticipated expenditures to offset overspent projects.
EL-89028	Electric Customer Connections		\$ 1,100,000	Increase to project due to higher than anticipated expenditures, with a \$650k reduction in EL-17007, and a \$450k reduction in EL-17002, both of which had some project savings.
EL-17007	Facility Relocation for Caltrain		\$ (650,000)	Decrease to project due to lower than anticipated expenditures to offset overspent projects.
EL-11014	Smart Grid Technology Installation		\$ 18,000	Increase to project due to higher than anticipated expenditures.

Attachment: Attachment B: Recommended FY 2022 Year-End Budget Actions (14632 : Approval of FY 2022 ACFR and Budget YE Adjustments)

ATTACHMENT B, EXHIBIT 2

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2022 CAPITAL IMPROVEMENT PROGRAM

Project Number	Title	Revenue	Expense	Comments
EL-17002	Substation Breakers		\$ (450,000)	Decrease to project due to lower than anticipated expenditures to offset overspent projects.
EL-89044	Substation Facility Improvements		\$ 99,000	Increase to project due to higher than anticipated expenditures.
EL-16003	Substation Security		\$ 1,100,000	Increase to project due to higher than anticipated expenditures with a \$730k reduction in EL-19001, and a \$370k reduction in EL-19004, both of which had some project savings.
EL-19004	Wood Pole		\$ (370,000)	Decrease to project due to lower than anticipated expenditures to offset overspent projects.
	Total	\$ -	\$ 145,000	

FIBER FUND

FO-16000	Fiber Optics Network - System Rebuild		\$ 18,000	Increase to project due to higher than anticipated expenditures.
	Total	\$ -	\$ 18,000	

GAS FUND

GS-11002	Gas System Improvements		\$ 4,000	Increase to project due to higher than anticipated expenditures.
	Total	\$ -	\$ 4,000	

STORMWATER MANAGEMENT FUND

SD-22000	East Bayshore Road & East Meadow Drive Storm Drain System Upgrade		\$ 5,000	Increase to project due to higher than anticipated expenditures.
	Total	\$ -	\$ 5,000	

VEHICLE FUND

VR-22000	Scheduled Vehicle and Equipment Replacement - Fiscal Year 2022	\$ 140,000	\$ 140,000	Adjustment to align project budget with mid-year amendments to the operating budget for the purchase of a tractor (\$100K) and a code enforcement vehicle (\$40K).
	Total	\$ 140,000	\$ 140,000	

WASTEWATER COLLECTION FUND

WC-99013	Sewer Manhole Rehab/Replacement		\$ 85,000	Increase to project due to higher than anticipated expenditures.
WC-80020	Sewer System, Customer Connections		\$ 5,000	Increase to project due to higher than anticipated expenditures.
	Total	\$ -	\$ 90,000	

WATER FUND

WS-80013	Water System Customer Connections		\$ 145,000	Increase to project due to higher than anticipated expenditures.
	Total	\$ -	\$ 145,000	

TOTAL CIP ADJUSTMENTS \$ - \$ 718,000

Attachment: Attachment B: Recommended FY 2022 Year-End Budget Actions (14632 : Approval of FY 2022 ACFR and Budget YE Adjustments)



Fiscal Year 2022 Annual Comprehensive Financial Report

This document may be viewed at the City's website:

[Financial Reporting – City of Palo Alto, CA](#)

<https://www.cityofpaloalto.org/files/assets/public/administrative-services/financial-reporting/comprehensive-annual-financial-reports-cafr/current-2011-cafrs/2022-acfr-final/city-of-palo-alto-acfr-fy2022-final.pdf>