

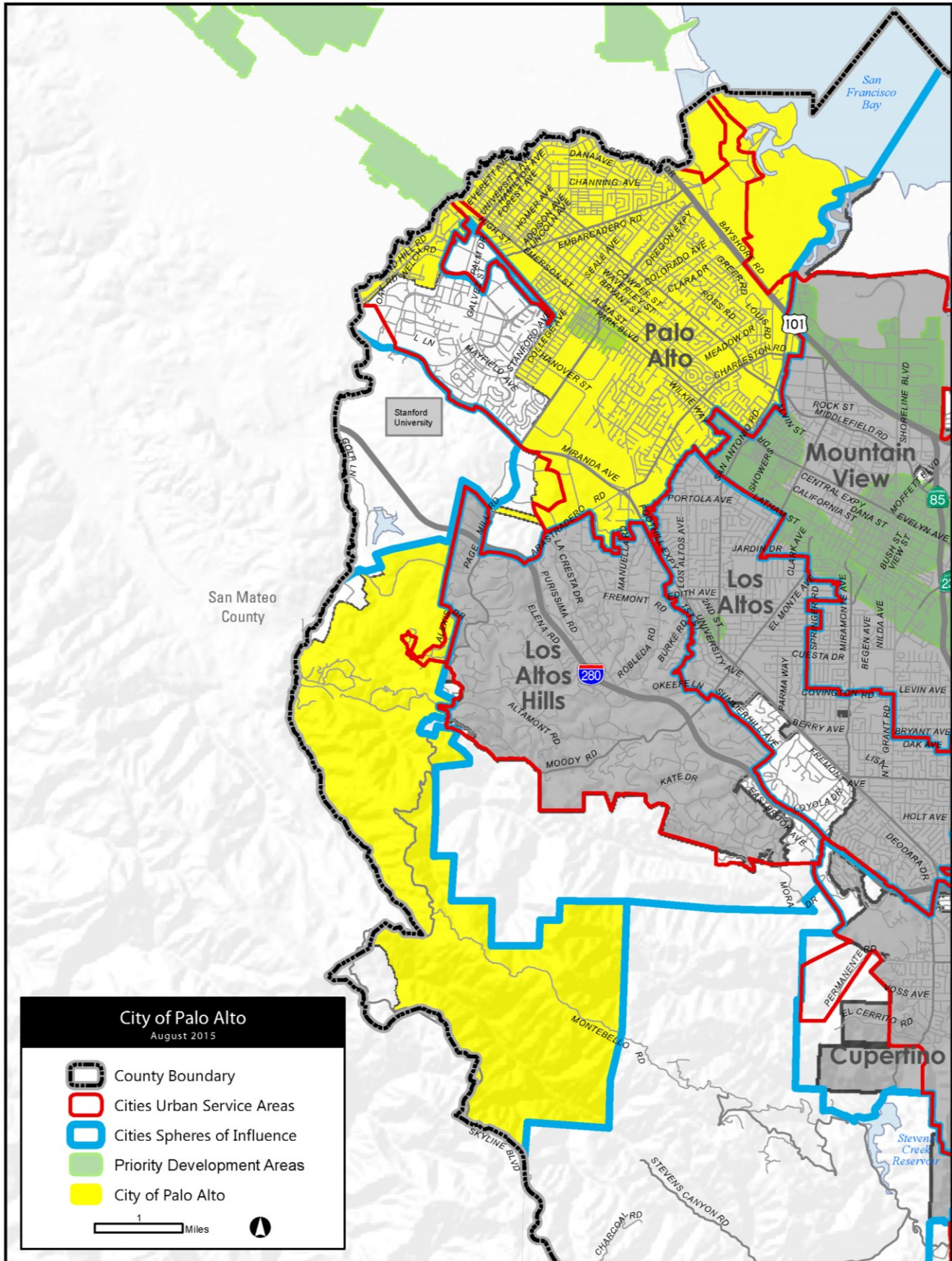
13 City of Palo Alto



13.1 Agency Overview

The City of Palo Alto was incorporated in April 1894. According to the California DOF 2015 estimates, the population of Palo Alto is 66,932. As of 2015, the City's incorporated area spans 25.96 square miles. Located 35 miles south of San Francisco and 14 miles north of San Jose, the City has a blend of commercial land residential land uses and is home to Stanford University. As of 2015, Palo Alto's USA spans 13.95 square miles, and its SOI encompasses 29.56 square miles. These boundaries can be seen in Figure 30.

Figure 30. City of Palo Alto Existing Boundaries



13.1.1 City Staffing

In FY 2014, total City staffing included 1,019 FTE employees. As shown in Table 139, the greatest number of FTEs is assigned to the police function.

Table 139. City of Palo Alto Staffing in Top Four Functions

City Staffing by Major Service Function	FY 2014 FTEs
Police	255.0
Public Works	155.0
Fire	116.0
General Government	116.0

Source: CAFR

13.1.2 Form of Government

Palo Alto is a charter city that operates under a council-manager form of government. The City Council consists of nine members who are elected at large. Council members serve four-year terms and select a mayor and vice mayor annually. In 2014, Palo Alto voters approved a ballot initiative to reduce the number of Council members from nine to seven. The seven-member City Council will go into effect in 2018.

13.1.3 Joint Powers Authorities

The City of Palo Alto is a member of two JPAs, as shown in Table 140.

Table 140. City of Palo Alto Joint Powers Authorities by Major Service Function

Name of JPA	Major Service Function
San Francisquito Creek Joint Powers Authority	Flood management
Silicon Valley Regional Interoperability Authority	Identify, coordinate, and implement public safety communications interoperability

Source: City website and City staff interviews

13.1.4 Awards and Recognition

The City of Palo Alto has been the recipient of a number of awards between 2010 and 2015, as shown in Table 141.

Table 141. City of Palo Alto Recent Awards

Name of Award	Issuer	Year(s) Received
Award for Sustainability	Acterra	2015
Insurance Services Office (ISO) Class 1 Rating	Insurance Service Agency	2015
Award for Excellence in Museum Education	State Superintendent of Public Instruction and the California Association of Museums	2015
LEED Platinum Certification (Mitchell Park Library and Community Center)	U.S. Green Building Council	2015
Best Public/Civic Project—Finalist (Mitchell Park)	Silicon Valley Business Journal Structure of the Year	2015

Name of Award	Issuer	Year(s) Received
Landmark Library (Mitchell Park Library & Community Center)	Library Journal	2015
California Preservation Design Award (Rinconada Library)	California Preservation Foundation	2015
Dr. Teng-chung Wu Pollution Prevention Award for lifetime achievements of Phil Bobel Assistant Director- Public Works Environmental Services	San Francisco Water Board	2014
Blue Shield Award of Excellence	The Society of American Engineers	2014
Outstanding Regional Stormwater News, Information, Outreach and Media Award	California Stormwater Quality Association	2014
Leading Digital City	Center for Digital Government	2014
Best of Web Award	Center for Digital Government	2014
Beacon Award	Institute for Local Government and Statewide Energy Efficiency Collaborative	2014
Most Electric Vehicle Ready Community Award	Charged & Connected Symposium	2014
Best Solar Collaboration Award	Solar Power Generation USA Congress	2014
Silver Knighton Award	Association of Local Government Auditors	2013
Star Library Rating	Library Journal Index of Public Library Service	2012
Public Power Wind Award	U.S. Department of Energy - Wind Powering America Initiative	2012
Innovator Award	Department of Pesticide Regulation Integrated Pest Management	2011
Award of Merit for the College Terrace Library Seismic Upgrade and Rehabilitation Project Award	American Public Works Association	2011
Renovation Award for the College Terrace Library	Palo Alto Stanford Heritage	2011
The California Highway Patrol Award (Biennial Inspection of Terminals) (Inspections CHP performs on all maintenance facilities in the State of California)	California Highway Patrol	Consecutively since 2006
Green Purchasing Award	Green California Summit and Exposition	2010

Source: City of Palo Alto staff

13.2 Growth and Population

13.2.1 Growth and Population Projections

State law requires the ABAG to prepare an SCS that considers how the region will accommodate projected growth over a long period while also reducing the region's generation of GHGs consistent with state goals for GHG reduction. "Plan Bay Area" is this region's SCS, adopted by ABAG and the MTC in July 2013.

The fundamental thrust of Plan Bay Area is to accommodate the majority of growth in PDAs. PDAs include infill areas within a city usually served by transit, such as historic downtowns and underutilized commercial strips. This approach is consistent with and supportive of LAFCO's goals to encourage orderly boundaries, discourage urban sprawl, and preserve agricultural and open space lands. Plan Bay Area includes projections for the region's population, housing, and job growth within existing urbanized areas. These projections demonstrate that the region has the capacity to accommodate expected growth over the next 30 years without sprawling further into undeveloped land on the urban fringe.

Many Bay Area cities use ABAG's projections as the basis for long-range planning. When ABAG prepared Plan Bay Area in 2013, it made projections for population and housing for 2015 for each city in the region. However, some cities believe that the state DOF estimates for population (based on information received on housing development and other current information) are more accurate.

The City of Palo Alto prepares its own projections for its long-term planning. Table 142 compares ABAG's projections for population, households (occupied housing units) and jobs with those prepared by the City of Palo Alto. (Palo Alto has projections for one forecast year: 2030.) Palo Alto expects slightly slower growth in population and roughly the same level of growth in jobs compared with ABAG's projections.

Table 142. City of Palo Alto Population, Jobs and Housing Projections through 2040

	2010	2015	2020	2025	2030	2035	2040
ABAG							
Population	64,403	67,400	70,500	73,700	77,100	80,800	84,600
Total Jobs	89,690	96,900	104,820	107,820	110,940	115,110	119,470
Total Households	26,493	27,780	29,110	30,380	31,730	33,030	34,370
City of Palo Alto							
Population		65,686 ¹			72,284		
Total Jobs		95,458 ¹			110,940		
Total Households		29,703 ¹			31,266		

Source: 2010 population from US Census. ABAG data used for 2015 to 2040 projections, City staff.

¹Estimates were calculated by City staff for 2014.

City staff indicated that historically, actual housing and population data for Palo Alto have been lower than ABAG's projections. Both the ABAG and City job numbers in Table 142 are jurisdictional and exclude Stanford University.

13.2.2 Jobs and Housing

In 2015, according to ABAG estimates, the City has 96,900 jobs within the community (not counting Stanford) and 32,110 employed residents. Within Palo Alto, there are 3.02 jobs for every employed resident. The U.S. Census American Community Survey 2013 estimates that Palo Alto has 27,789 housing units; when combined with ABAG's estimate of 96,900 jobs within the City, jobs and housing balance is 3.49.

State law requires that ABAG quantify and allocate housing needs to each jurisdiction within the Bay Area. In periodic updates to the general plan's Housing Element, each Bay Area jurisdiction must then demonstrate how it will meet that need over the next planning period. The current Housing Element update cycle is from 2015 to 2023.

As Table 143 shows, the majority of housing units in Palo Alto are owner-occupied single-family housing units. According to ABAG, between January 1, 2014 and October 31, 2022, the City of Palo Alto's assigned housing need is 1,988 units. In November 2014, Palo Alto adopted its 2015-2023 Housing Element and demonstrated that it has sites and housing opportunities available to accommodate 2,187 units, which is 199 units in excess of its assigned regional share of 1,988 units. The City of Palo Alto's housing element was certified by the State of California's Housing and Community Development Department in January 2015.

Table 143. City of Palo Alto Housing Profile

Housing Statistic	Number
Number of total existing housing units	27,789
Owner-occupied (SFR) housing units	14,529
Renter-occupied housing units	11,700
RHNA by income category	2014 to 2022
Above moderate	587
Moderate	278
Low	432
Very Low	691
Total	1,988

Sources: U.S. Census American Community Survey 2013 (number of total housing units); ABAG (housing needs)

13.2.3 Planning and Building

In FY 2013, Palo Alto issued a total of 3,682 residential and commercial building permits. Total building permit valuation in FY 2013 was \$574,652,396.

The City's total assessed valuation for FY 2014 is approximately \$25.5 billion. This represents a 21% increase from FY 2009.

13.2.4 Priority Development Areas

The City has one planned priority development area. This area, known as California Avenue, is approximately 95 acres and is categorized as a future transit-oriented neighborhood. Palo Alto has received a grant from the VTA to establish a Master Plan for the area, and expects to receive the funds during FY 2016. This PDA includes the California Avenue CalTrain station, which includes a connection to VTA's bus system and the Stanford University shuttle system. The majority of the PDA area is within the California Avenue Pedestrian Transit Oriented Development Combining District (PTOD) which is detailed in chapter 18.34 of the municipal code. The PTOD District is intended to encourage higher density residential dwellings within a walkable distance of the California Avenue CalTrain station.

13.2.5 Planning for an Aging Population

Palo Alto staff recognize that planning for the City's changing demographics is a challenge. The senior population has increased by 20% over the past few decades, and Palo Alto anticipates an even greater increase as baby boomers enter retirement. The City has adopted several measures to accommodate the needs of the aging population within Palo Alto. These include focusing on community services and housing for seniors.

Palo Alto has a successful partnership with Avenidas, a non-profit organization that provides senior programs. Avenidas leases a building from the City at no cost, and in turn, offers a variety of services to the senior population. The demand for Avenidas' services is so high that the organization is looking to expand lease space. City staff indicated that this shared service arrangement is a great model for other local governments that are striving to provide senior support services for individuals aging in their own homes.

13.3 Boundaries, Islands, and Disadvantaged Unincorporated Communities

13.3.1 Planning Boundaries

The City's USA and municipal boundaries are nearly contiguous with the exception of one unincorporated area. This island is discussed in section 13.3.2.

The City has no plans to amend its USA or SOI within the next five years. It is not currently providing services to the area outside of its city boundaries.

13.3.2 Unincorporated Islands

Along the western border of Palo Alto's USA lies Stanford University which is an unincorporated area of the County. The County has established specific land use policies regarding the University's growth and development, which are discussed in chapter 20. Maps of each city's unincorporated islands are included in Attachment B.

13.3.3 Disadvantaged Unincorporated Communities (DUCs)

State law defines a DUC as a community with an annual median household income that is less than 80% of the statewide annual median household income (less than \$48,875) and where 12 or more registered voters reside. Based on this definition, two DUCs were identified within the City of Palo Alto's SOI. Figure 31 shows a map of the identified DUCs, and Table 144 shows additional detail about Palo Alto's DUCs.

Table 144. Palo Alto DUCs

Identified DUCs	Location	Land Uses	SERVICE PROVIDERS		
			Wastewater	Water	Fire Protection
PA DUC #1	Stanford University	Dorms	Palo Alto by contract	Stanford University	Palo Alto by contract
PA DUC #2	Stanford University	Dorms, graduate student housing, staff housing	Palo Alto by contract	Stanford University	Palo Alto by contract

Source: LAFCO Staff

Both DUCs are located at Stanford University and consist primarily of dorms, graduate student housing, and staff housing. As part of Stanford University, both DUCs receive water service from the University and wastewater service and fire protection service from the City of Palo Alto by contract agreement. The DUCs receive adequate public services and no infrastructure needs or deficiencies related to sewers, water, and fire protection were identified.

Although the DUCs are located within the City of Palo Alto's USA, annexation of these areas to the City is not anticipated. Based on long-standing County policies, plans, and the joint agreement between the City, Stanford University and the County; academic land uses such as dorms, graduate student housing, and staff housing are not required to annex to a city.

13.4 City Services

In Palo Alto core municipal services are delivered by City staff. The primary service provider for the major municipal services discussed in this report is summarized in Table 145.

Unless specifically noted, the City of Palo Alto did not anticipate difficulty in continuing to provide services or maintain infrastructure or facilities related to service delivery in the following areas.

Figure 31. Disadvantaged Unincorporated Communities in Palo Alto

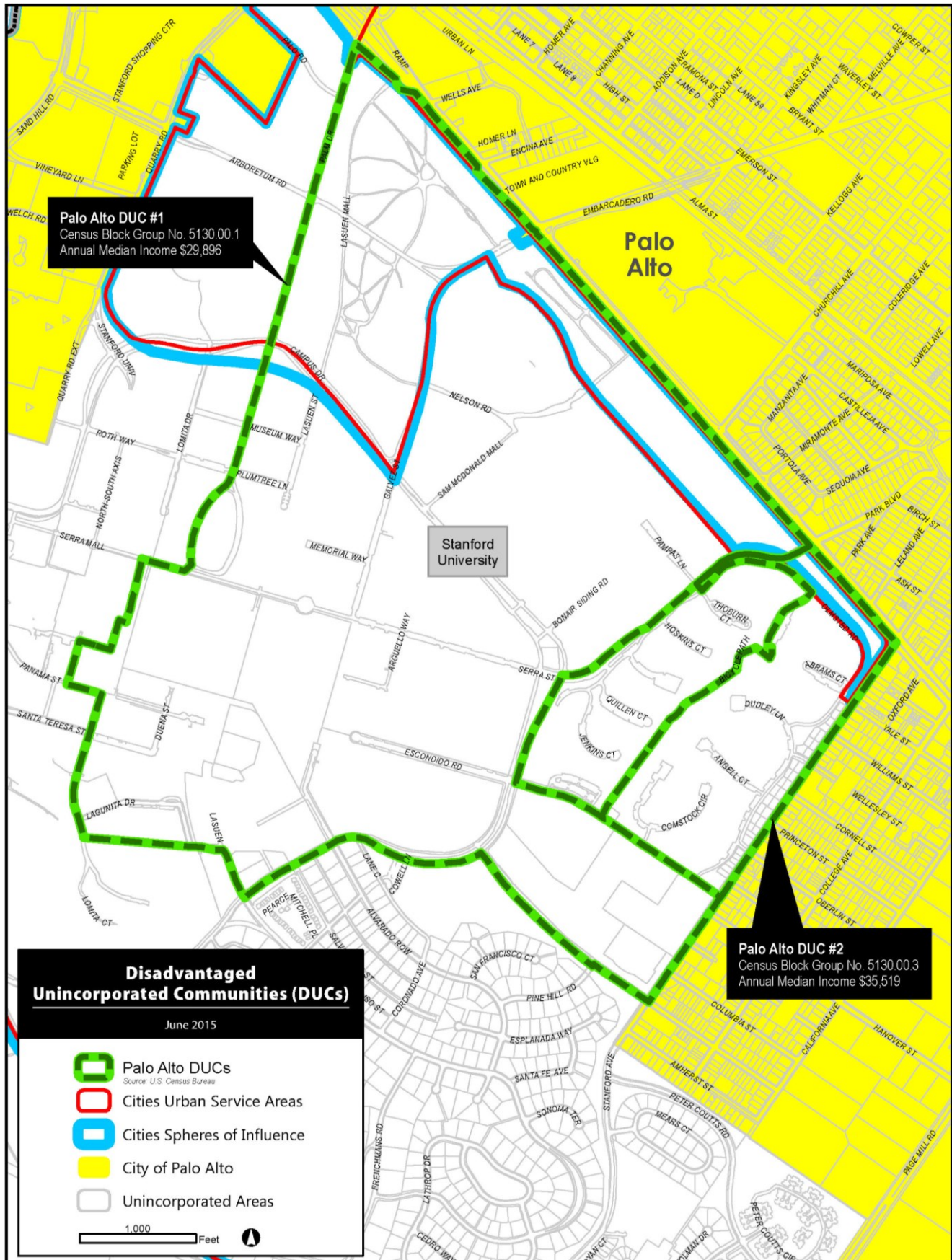


Table 145. City of Palo Alto Service Delivery Model by Major Service Function

Major Service Function	Primary Service Provider	Non-City Service Provider, if applicable
Animal Control	City	
Law Enforcement	City	
Library	City	
Parks and Recreation	City	
Planning/Building	City	
Solid Waste	Franchise Agreement	GreenWaste of Palo Alto
Streets	City	
Stormwater	City	
Utilities		
Gas	City	
Electricity	City	
Telephone, High-speed Internet	Franchise Agreement	AT&T, Comcast (State-Issued Franchise)
Wastewater¹	City	

Source: City website and City Staff interviews

¹The Palo Alto Regional Water Quality Control Plant is a partnership agreement among several public agencies. The City of Palo Alto is the owner and operator of the Regional Water Quality Control Plant. The cities of Mountain View, Los Altos, Los Altos Hills along with Stanford University and East Palo Alto Sanitary District have agreements to use a portion of the plant's capacity. Through this partnership agreement, all six agencies proportionately share in the costs of building and maintaining the facility.

In the past five years, the City has not stopped providing any core municipal services. City staff indicated that the City Council has expressed interest in exploring options for contracting natural gas provision, which could represent a future shift in the municipal services provided by Palo Alto. While Palo Alto has not started providing any new municipal services in the past five years, it has made some recent changes to how it provides services. For example, the City adopted an “open data by default” policy that encourages more transparency and enables the City to crowdsource different applications and solutions from the private sector. Additionally, the City redesigned its Development Services Center to be more user-friendly and innovative. Given the expected population growth for the City of Palo Alto, City staff does not anticipate any difficulty providing municipal services to its community.

A summary of key service level statistics is compiled as part of Attachment A to this report.

13.4.1 Animal Control

The City of Palo Alto Police Department is the service provider for animal control within the City of Palo Alto. The Police Department operates a regional animal shelter that serves the City of Los Altos and the Town of Los Altos Hills. The City of Mountain View was previously a partner in Palo Alto's animal shelter but recently stopped participating in this shared service arrangement. To continue operating the shelter under the existing model, Palo Alto staff indicated that the City needs to find other partners. According to staff, options to discontinue providing shelter services are being explored (possibly turning the shelter into a non-profit organization). If this option is viable, the City would continue to provide animal control services. In FY 2014 total City expenditures for this function were \$1,613,420. Service level statistics are included in Attachment A.

13.4.2 Law Enforcement

The Palo Alto Police Department provides law enforcement and dispatch services within the City of Palo Alto. The Police Department has one police station and 92 sworn officers. During FY 2014, there were 54,628 calls for service. The City reports that response time for Priority One calls averaged 4 minutes and 57 seconds. The City's goal for response time for Priority One calls is 6 minutes.

In FY 2014, total City expenditures on this function were \$33.3 million. Approximately 20% of the City's General Fund is dedicated to law enforcement.

The City participates in County and other task forces. In addition, Palo Alto shares technology resources with a variety of law enforcement partners.

13.4.3 Library

The City of Palo Alto is the primary provider for library services, and operates five facilities within the City. Annual print circulation exceeds 302,000, and nearly 60,000 digital books are available for download to library patrons.

13.4.4 Lighting

Lighting within the City is provided and maintained by the City. While the Public Works Department funds street lighting, the City's Utilities Department is responsible for street light maintenance. A summary of lighting infrastructure is provided in Attachment A.

13.4.5 Parks and Recreation

The City is the primary service provider for parks and recreation. FY 2014 total expenditures for parks and recreation, which is housed within the Community Services Department, were not specifically outlined in the City's operating budget. The City has 36 parks and a total of 157 park acres. In addition, 3,744 acres of open space owned by the City are publicly accessible. The City reports 2.3 park acres per 1,000 population, which exceeds their goal of 2.0 park acres per 1,000 population.

The City operates four community centers, one teen center, one golf course, and one swimming pool. Palo Alto is part of a successful facility sharing agreement with the school district. The City and the school district share in the cost to maintain all 13 elementary fields and three middle school fields. When school is not in session, the City manages rental and use of the athletic fields by non-school users, and both the City and the school district share the revenue. This arrangement has been so positive that the City hopes to expand the agreement to include the high school fields. The City also has a long-term agreement with Stanford University for use of two of its synthetic turf fields.

13.4.6 Solid Waste

GreenWaste of Palo Alto has a franchise agreement to provide solid waste services in the City of Palo Alto. In FY 2014, City expenditures for public solid waste services were \$27.8 million.

In CY 2013, Palo Alto disposed of 47,088 tons of solid waste. Palo Alto offers food waste and green waste and yard trimming disposal, and recycling of mixed paper, bottles, cans and other recyclable materials. In 2013, the City's amount of pounds of solid waste disposed per person per day was 3.9 for its general population, meeting the state's goal for the community of 8.2 pounds. The pounds of solid waste per person per day for employees in the community was 2.9, meeting the state's goal for the community of 7.1 pounds. No solid waste disposal facility is located within Palo Alto.

13.4.7 Streets

The City of Palo Alto maintains 470 lane miles and 283 sidewalk miles. The City expends approximately \$1.46 million annually on street-related expenditures. Street sweeping is provided by the City's Public Works Department. The City maintains approximately 35,000 street trees. In collaboration with the community, Palo Alto has developed an Urban Forest Master Plan and tree maintenance program that will help plan for and improve the City's urban forestry. The City's pavement condition index (PCI) is 77, which falls below its PCI goal of 85.

13.4.8 Stormwater

The City's stormwater system is managed and maintained by the City's Public Works Department. Palo Alto is engaged in efforts to ensure they meet new federal and state stormwater management requirements. These efforts include intercepting trash at the downstream ends of the Matadero and Adobe creeks and imposing a new plastic bag ordinance to limit the number of bags that end up in area creeks. City staff indicated that the plastic bag ordinance has been successful.

Maintenance of the stormwater system is funded by an enterprise fund. The fee for residential equivalent units was increased in 2006, but will sunset in 2017. City staff expressed concern that if the increase does not continue, then maintenance of the stormwater system will likely need to be subsidized by the General Fund.

Palo Alto participates in the SCVURPPP along with several other cities and the County to address water pollution on a regional basis (more information on SCVURPPP is included in the Shared Services chapter of this document). SCVURPPP members share a common NPDES permit, allowing member agencies to discharge stormwater into the San Francisco Bay (see the Shared Services chapter for more information). The City reports that it is compliant with NPDES standards.

13.4.9 Utilities

The Palo Alto Utilities Department is the electricity and gas provider within Palo Alto. The City has over 29,000 electric meters and nearly 24,000 gas meters. The City did not indicate concerns about its ability to serve Palo Alto's existing population or its future demand for energy and natural gas. The City has power purchase agreements throughout California, including some solar farms in the Central Valley and some hydroelectric farms in the Sierra Foothills. Palo Alto has a carbon-neutral electric portfolio.

Telecommunications providers (telephone, high speed internet and land-based video/cable services) serving Palo Alto are AT&T and Comcast. Palo Alto indicated no concerns about the availability or reliability of telecommunications services, including high-speed internet.

13.4.10 Wastewater

The City of Palo Alto provides wastewater service. In FY 2014, City expenditures for wastewater services were \$33.4 million.

Palo Alto is the lead agency of the City of Palo Alto's RWQCP partnership. The RWQCP provides wastewater treatment for six agencies (Los Altos, Los Altos Hills, Mountain View, Palo Alto, Stanford University and East Palo Alto Sanitary District). The City is confident that the RWQCP can adequately meet the demands of future needs, according to ABAG's growth projections for the member agencies. Additionally, City Council recently approved a 25-year master plan for upgrades and expansion of the RWQCP. The RWQCP incinerates sludge collected from its partner agencies and the City of Palo Alto. Palo Alto RWQCP is developing plans to move toward more environmentally conscious biosolid waste management practices.

The City of Palo Alto produces its own non-potable recycled water and is working with the Santa Clara Valley Water District to increase its supply of recycled water. According to staff, approximately one MGD are produced from the RWCQP, but daily production capacity is closer to six or seven MGD. Some of the recycled water is piped south to the City of Mountain View. The balance is used for irrigation at the City of Palo Alto's golf course and Greer Park or at the City's three reclaimed water filling stations, which are open to the public. Upon completion of the plant's upgrades and expansion, Palo Alto staff estimate the plant could recycle up to 22 MGD. The City is not presently providing recycled water directly to residents as the infrastructure costs are prohibitive, nevertheless the City would consider implementation as one of several alternatives in its long-range drought response strategy.

13.5 Financial Information

The following section provides key financial data points related to Palo Alto's municipal operations based on the most recent audited financial statements available from FY 2014. Select information is provided from FY 2009 for trend and comparative information.

In FY 2014, Palo Alto's total citywide expenditures exceeded \$390 million. Approximately 40% (\$156 million) of these expenditures constituted General Fund expenditures.

13.5.1 Revenues and Expenditures

The City's primary source of revenue is property tax. Since FY 2009 property tax revenue has increased by about \$9.9 million (39%). Sales tax revenue in Palo Alto in FY 2014 is significantly above pre-Great Recession levels (see Table 146).

Table 146. City of Palo Alto Tax Revenues

Tax Revenue Type	FY 2009	FY 2014
Property Tax	\$25,432,000	\$35,299,000
Sales Tax	\$20,089,000	\$29,424,000
Utility Users Tax	\$11,030,000	\$11,008,000

Source: CAFR

A summary of the City's General Fund revenues and expenditures is shown in Table 147.

Table 147. City of Palo Alto Major Sources of General Fund Revenue and Expenditures

	FY 2009	FY 2014
Total General Fund Revenues	\$113,847,000	\$141,683,000
Total General Fund Expenditures	\$114,826,000	\$134,547,000
Top Four Sources of General Fund Revenues		
Property tax	\$25,432,000	\$30,587,000
Sales tax	\$20,089,000	\$29,424,000
Charges for Service	\$19,769,000	\$23,962,000
Rental Income	\$13,646,000	\$14,215,000
Top Four Sources of General Fund Expenditures		
Public Safety	\$48,892,000	\$61,742,000

	FY 2009	FY 2014
Community Services	\$17,451,000	\$22,511,000
Planning and Community Environment	\$9,509,000	\$13,209,000
Public Works	\$10,064,000	\$11,548,000

Source: CAFR

13.5.2 Debt

A summary of the City's obligations, debt, and liabilities is provided in Table 148. General bonded debt increased significantly since FY 2009 as the City issued a total of \$76 million in general obligation bonds in CY 2010 and 2013 for capital improvements and new construction related to its libraries and a community center.

Table 148. City of Palo Alto Obligations, Debt and Liabilities

Obligations, Debt and Liabilities	FY 2009	FY 2014
General Bonded Debt	\$7,605,000	\$80,913,000
Ratio of Direct Debt (General Bonded Debt) to Net Assessed Valuation	0.0%	0.3%
Ratio of Combined Debt (Direct and Overlapping Debt) to Net Assessed Valuation	2.4%	2.6%
Unfunded pension liability	\$84,535,000	\$295,561,000

Source: CAFR

13.5.3 Reserves

Palo Alto's unassigned General Fund reserve levels have increased since FY 2009. Such increases are a positive indicator of economic recovery from the Great Recession and proactive fiscal management practices employed by the City (see Table 149).

Table 149. City of Palo Alto Reserves

Line Item	FY 2009	FY 2014
Unassigned General Fund Reserve Levels	\$27,012,000	\$36,690,000
Economic Uncertainty Reserve Fund (separate from General Fund Reserve)	\$0	\$0

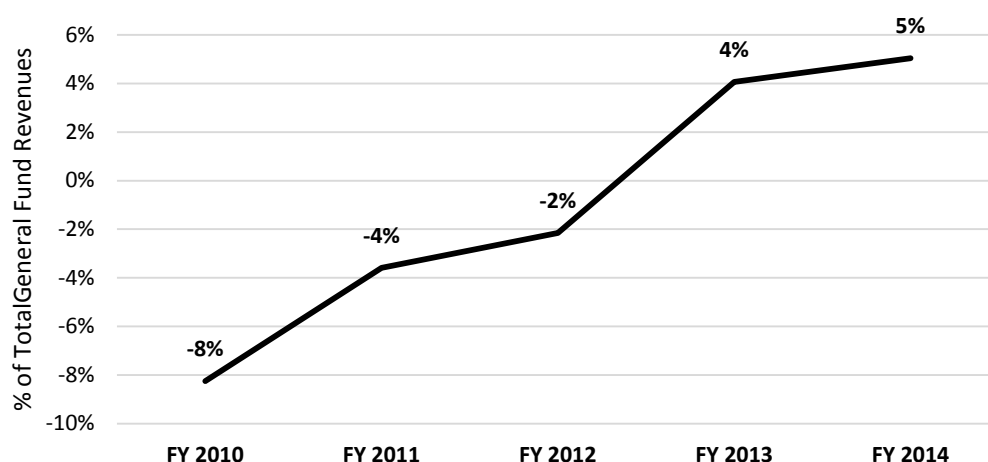
Source: CAFR

13.5.4 Financial Health Indicators

Using select indicators from the League of California Cities' Financial Health Diagnostic Tool, the City of Palo Alto is in positive fiscal health.

Over the past two years the City has accumulated annual surpluses in the General Fund. The City's General Fund surplus has increased by 13 percentage points since FY 2010, an indicator of positive fiscal health. The trend of the City's General Fund deficit/surplus is shown in Figure 32.

Figure 32. City of Palo Alto Gross Annual General Fund Deficit/Surplus by year from FY 2010 to FY 2014



Source: CAFR

The City's FY 2015 adopted budget indicates a net deficit in its General Fund, but has a 10-year Long Range Financial Forecast (LRFF) that provides for maintaining a healthy level of General Fund reserves during that period. The most recent LRFF indicates that over the next 10 years, the General Fund has a cumulative net operating margin of \$3.2 million. The budget and financial plan incorporate debt service associated with the City's general bonded indebtedness. The City has generally been conservative in its budget estimations, and actual results typically yield higher reserves than budget forecasts.

Table 150 shows the City's General Fund Fiscal Indicators. Not included in the FY 2015 operational surplus/deficit is a transfer from the General Fund of \$13.7 million to its Infrastructure Funds for capital projects. As a continuing practice, the City maintains reserves of between 15% and 20% of annual operating expenditures. The City's liquidity ratio indicates the necessary cash to fund its liabilities. General Fund reserves at FY 2014 of 31.3% exceed the GFOA-recommended minimum reserve of 17% (or two months) of annual operating expenditures.

Table 150. City of Palo Alto General Fund Fiscal Indicators

Fiscal Year	Indicator	Value
FY 2015	Net Operating Deficit/Surplus	\$8.0M ¹
FY 2014	Liquidity Ratio ²	4.5
FY 2014	Fund Balance as percent of Expenditures ³	31.3%

Source: CAFR, City Finance Staff

¹ City did not indicate this figure as a percentage

² Calculated by combining cash and short-term investments and then dividing by current liabilities

³ Unreserved (unassigned and assigned) General Fund Reserves as a percent of annual operating expenditures

13.5.5 Financial Reporting

The City's CAFR is prepared in a timely manner and audited by an independent CPA. See Table 151.

Table 151. City of Palo Alto Financial Reporting

Financial Reporting Indicator	Status
Unqualified opinion from independent CPA	Yes

Publication of CAFR within six months of fiscal year	Yes
--	-----

13.6 Service Review Determinations

LAFCO is required to prepare a written statement of determination with respect to six key areas as specified by Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. Using criteria described in section 2.4, the following determinations are provided for the City of Palo Alto.

1. GROWTH AND POPULATION PROJECTIONS

As of 2015, the City of Palo Alto serves 66,932 residents within its 25.96 square mile incorporated area. ABAG projects that the City's population will grow steadily by approximately 0.9% per year, leading to a population of 84,600 in 2040.

Along the western border of Palo Alto's USA lies Stanford University, which is an unincorporated area of the County.

The City has identified sufficient housing opportunities to meet its RHNA of 1,988 housing units between 2014 and 2022. The City does not anticipate that growth patterns will expand beyond Palo Alto's existing USA. One PDA is planned within Palo Alto for infill development.

The City's most recent general plan was adopted in July 2007. A new general plan is being prepared and expected for adoption in 2016.

The City's existing boundaries accommodate the level of growth projected by ABAG in Plan Bay Area.

2. LOCATION AND CHARACTERISTICS OF ANY DISADVANTAGED UNINCORPORATED COMMUNITIES WITHIN OR CONTIGUOUS TO THE SPHERE OF INFLUENCE

Two DUCs were identified within the City of Palo Alto's SOI. Both DUCs are located at Stanford University and consist primarily of dorms, graduate student housing, and staff housing. As part of Stanford University, both DUCs receive water service from the University and sewer service and fire protection service from the City of Palo Alto by contract/agreement. The DUCs receive adequate public services and no infrastructure needs or deficiencies related to sewers, water, and fire protection were identified.

Although the DUCs are located within the City of Palo Alto's Urban Service Area, annexation of these areas to the City is not anticipated. Based on long-standing County policies, plans, and the joint agreement between the City, Stanford University and the County; academic land uses such as dorms, graduate student housing, and staff housing are not required to annex to a city.

3. PRESENT AND PLANNED CAPACITY OF PUBLIC FACILITIES, ADEQUACY OF PUBLIC SERVICES, AND INFRASTRUCTURE NEEDS OR DEFICIENCIES, INCLUDING THOSE RELATED TO SEWERS, WATER AND FIRE IN ANY DUCs WITHIN OR CONTIGUOUS TO THE SOI

City staff noted that in order to continue to operate its animal control shelter under the existing model, the City will need to find other partners, and is currently exploring options to discontinue providing shelter services through other arrangements (e.g., a non-profit organization). The City also expressed concerns that the stormwater fee for residential

units will sunset in 2017 and that maintenance of the stormwater system will become a financial burden on the City's General Fund if not continued.

The City of Palo Alto does not anticipate obstacles to maintaining existing service levels or meeting infrastructure needs in the next five years, given the growth and population increases projected.

No deficiencies were identified in service the DUC areas within the City's SOI.

The City's Pavement Condition Index of 77 in 2014 is currently below the goal index of 85 that it has established.

4. FINANCIAL ABILITY OF AGENCY TO PROVIDE SERVICES

Palo Alto's General Fund operated at a deficit as a result of the Great Recession until operational changes and revenue recovery yielded surpluses in 2013 and 2014. The City has a five-year financial plan that maintains a healthy level of General Fund reserves. Palo Alto's General Fund reserves of 31.3% exceed the minimum reserve threshold of two months of operating expenditures (17%) as recommended by the GFOA, indicative of the City's ability to meet future service needs in the event of an economic downturn. In addition, the City's liquidity ratio of 4:1 indicates the necessary cash to fund its short-term obligations with sufficient cash flow.

The City of Palo Alto has sufficient financial resources to accommodate infrastructure expansion, improvements or replacement based on the agency's capital improvement plans. One area of potential concern is stormwater, as discussed under Determination Three.

The City prepared its CAFR in a timely manner, which was audited by an independent CPA with an unqualified opinion.

5. STATUS AND OPPORTUNITIES FOR SHARED FACILITIES

The City of Palo Alto is engaged in service sharing agreements as identified in Table 152 below.

Table 152. Summary of Shared Services in the City of Palo Alto

Service Area	Type of Sharing Arrangement	Partnering Entity
Flood Management	JPA	San Francisquito Creek JPA
Law Enforcement – Dispatch	Interoperability Partnership Agreement	Shared between Palo Alto, Los Altos and Mountain View
Law Enforcement – Radio Communications	JPA	SVRIA
Stormwater	MOU	SCVURPPP
Wastewater Treatment	Partnership Agreement	City of Palo Alto

Further opportunities to share services were identified in the area of animal control and joint use agreements for use of high school athletic fields.

6. ACCOUNTABILITY FOR COMMUNITY SERVICE NEEDS, INCLUDING GOVERNMENTAL STRUCTURE AND OPERATIONAL EFFICIENCIES

Palo Alto provides comprehensive information about core municipal operations on its website, including public hearing notices, agendas, and minutes for the City Council and its various advisory commissions and committees; annual budget; CAFR; general plan; and various master plans.

Through the publication of these documents, the City of Palo Alto promotes accountability for its community service needs.

13.7 Sphere of Influence Recommendations and Determinations

SOI BOUNDARY RECOMMENDATION

The City's SOI is substantially coterminous with the City limits, with the exception of including various unincorporated lands such as Stanford University and unincorporated lands along Page Mill and Alpine Roads. The City's SOI boundary to the north extends 2 miles into San Francisco Bay. The southern portion of the City's SOI consists primarily of permanently protected open space lands (e.g., Palo Alto Foothill Park, Los Trancos Open Space, and Monte Bello Open Space) as well as small unincorporated areas developed with low density residential uses that are located adjacent to Los Altos Hills along Page Mill Road. The City of Palo Alto is substantially bounded by the Cities of Mountain View, Los Altos, and Los Altos Hills to the east; unincorporated hillsides to the south; Stanford University and the Cities of Menlo Park and Portola Valley (both cities are located in San Mateo County) to the west; and the City of East Palo Alto (located in San Mateo County) to the north.

It is recommended that LAFCO reaffirm the City of Palo Alto's existing SOI boundary because the City's SOI boundary serves multiple purposes including serving as:

- A long range planning tool to help LAFCO evaluate USA boundary changes and annexation requests.
- Areas that will not necessarily be annexed to the City or will not necessarily receive services from Palo Alto, but are areas in which the County and Palo Alto may have shared interests in preserving non-urban levels of land use. Specific examples include the foothills and ridgelines located west of the City and certain unincorporated areas that include Stanford University. Furthermore, both the City and the County share a mutual interest in protecting view sheds and natural resources.
- Areas where the City and the County have significant interaction.
- Areas that contain social and economic communities of interest to the City, such as areas within the City's jurisdictional boundaries.

In making this recommendation, it should be made clear that inclusion of an area within the City's SOI boundary should not necessarily be seen as an indication that the City will or should either annex or allow urban development and services in the area. The City's USA boundary is the more critical factor considered by LAFCO and serves as the primary means of indicating whether the areas will be annexed and provided urban services.

SOI DETERMINATIONS FOR THE CITY OF PALO ALTO

Government Code §56425(e) requires written determinations with respect to the following four factors to update an agency's SOI. Based upon the information contained within Palo Alto's service review profile in this chapter, the following determinations are provided to update the City's existing SOI:

1. The Present and Planned Land Uses in the Area, Including Agricultural and Open-Space Lands

A variety of urban uses are planned within Palo Alto's USA boundary. The County's and City's general plans call for the continuation of non-urban uses beyond the City's USA boundary.

2. The Present and Probable Need for Public Facilities and Services in the Area

The need for a full range of public facilities and services is expected to grow modestly in the future.

3. The Present Capacity of Public Facilities and Adequacy of Public Services that the Agency Provides or is Authorized to Provide

The present capacity of public facilities appears to be adequate. However, Palo Alto expressed concerns that the stormwater fee that sunsets in 2017 will place a financial burden on stormwater system maintenance if the fee is not continued. In addition, the City indicated the need to find other partners in the operation and funding of its animal control shelter in order to continue providing shelter services.

4. The Existence of Any Social or Economic Communities of Interest in the Area if the Commission Determines That They are Relevant to the Agency

There exist social and economic conditions that cause interaction and interdependence between the City and the areas within its SOI boundary.

5. For Those Cities that Provide Public Facilities or Services Related to Sewers, Water or Fire Protection, the Present and Probable Need For Those Public Facilities and Services in Any DUCs within the Existing SOI

The City is able to provide these services to these areas.