



City of Palo Alto

City Council Staff Report

(ID # 5129)

Report Type: Consent Calendar

Meeting Date: 10/20/2014

Summary Title: Approval of Fiscal Year 2014 Reappropriation Requests to be Carried Forward into Fiscal Year 2015

Title: Finance Committee Recommends Approval of Fiscal Year 2014 Reappropriation Requests to be Carried Forward Into Fiscal Year 2015

From: City Manager

Lead Department: Administrative Services

Recommendation

The Finance Committee and staff recommend that the City Council preliminarily approve the Fiscal Year 2014 reappropriations to be carried forward into Fiscal Year 2015.

Background

As part of the fiscal year-end process, staff reviews the City's unencumbered and unspent appropriations of the fiscal year just ended, along with the City's spending plans. Encumbered amounts are those subject to the legal claims of other parties due to contractual obligations (for example, commitments made through purchase orders). The City has a process for carrying forward encumbrances from one fiscal year to the next.

However, each year there are a small number of important projects the City carries forward into the next year with unencumbered funds. The reappropriations process is used for these projects, which are generally one-time needs. Although the Municipal Code also requires that the Council provide final approval once the accounting books are closed, the Council is requested to provide a preliminary approval at this time to allow the reappropriations to move forward.

Discussion

On September 16, the Finance Committee recommended that the City Council approve the Fiscal Year 2014 reappropriations as identified in Finance Committee staff report (see Attachment A). The projects for which reappropriations are recommended can generally be grouped into the following categories:

- **Timing and Workload Delays-** Certain projects were delayed due to competing workload demands, appropriation of funds late in the fiscal year, or other unanticipated delays. Examples of projects in this category include the Police Utilization Study, Airport Legal Outside Counsel, Comprehensive Plan, Business Registry Certificate Program, Ecological Footprint Analysis, Virtual Private Network Upgrade, Virtual Private Cloud, and Council Chambers Voting System Replacement.
- **Capital Projects with no Expenditures in FY 2014 or FY 2013-** A limited number of capital projects have not had funds expended for two years, however staff still intends to complete the project. As mentioned in the attached report to the Finance Committee, appropriation of capital improvement funds, per the existing Municipal Code, are to remain in full force and effect until the purpose for which each was made has been accomplished or abandoned. The purpose of any capital appropriation is deemed abandoned if two years pass without any expenditure from the appropriation. There are two projects that fall into this category (Municipal Services Center Facilities Study and Long Range CCTV Cameras). It is anticipated that work will commence on these projects during FY 2015.
- **Library Materials-** Savings were realized in the area of Library Materials in FY 2014 in anticipation of the 2015 openings of Mitchell Park Library and the Rinconada Library. These funds, from the Palo Alto Library Foundation, will allow for the library to purchase publications and materials for library patrons.
- **Teen Programs-** At the June 2, 2014 City Council meeting, the City Council approved a recommendation from the Policy and Services Committee to use the net revenue collected from 455 Bryant Street in Fiscal Years 2009 through 2013 (\$213,834) to fund Teen Programs. Per City Council action/direction, the net revenue from prior years in the amount of \$213,834 in addition to \$84,000 for Fiscal Year 2014 for a total of \$297,834 is to be brought forward for reappropriation. A long term expenditure plan will be brought to the City Council in fall 2014, including the use of estimated Fiscal Year 2015 revenue of \$84,000.
- **Management and Professional Development funds-** A number of City employees, as part of their compensation plan, are eligible for certain self-improvement activities. These funds are available to certain employees for civic and professional association memberships, conference participation and travel, educational programs, certain tuition costs, and professional and trade journal subscriptions, and are recommended to be carried over to Fiscal Year 2015 to improve and supplement the job and professional skills of employees.

Finance Committee Review and Recommendation

At the September 16 Finance Committee meeting, after addressing the Committee's questions, the Finance Committee unanimously approved (3-0, Council Member Holman absent) staff's

recommendation (see Attachment B for the Minutes) to carry forward staff's reappropriation requests.

Resource Impact

The requested items have been previously reviewed and approved by City Council as part of annual budget processes. Staff has determined that sufficient funds exist to allow for the approval of the attached Fiscal Year 2014 reappropriations list (see Attachment A of the attached Finance Committee report). For Fiscal Year 2015, staff recommends \$1.6 million in carryover funds in the General Fund and \$0.8 million in all other funds with a total of \$2.4 million citywide.

Policy Implications

This recommendation is consistent with adopted Council policy.

Environmental Review (If Applicable)

The action recommended is not a project for the purposes of the California Environmental Quality Act.

Attachments:

- ATTACHMENT A: Reappropriations to FY 2015 Report, Finance Committee, Sept. 16, 2014 (PDF)
- Attachment B_9-16-14 FCMINUTES (PDF)



City of Palo Alto
Finance Committee Staff Report

(ID # 5043)

Report Type: Action Items

Meeting Date: 9/16/2014

Summary Title: Approval of Fiscal Year 2014 Reappropriation Requests to be Carried Forward into Fiscal Year 2015

Title: Approval of Fiscal Year 2014 Reappropriation Requests to be Carried Forward Into Fiscal Year 2015

From: City Manager

Lead Department: Administrative Services

Recommendation

Staff recommends that the Finance Committee preliminarily approve the Fiscal Year 2014 reappropriations to be carried forward into Fiscal Year 2015 and direct staff to forward the Finance Committee's recommendation to the City Council.

Background

As a part of the fiscal year-end process, staff reviews the City's unencumbered and unspent appropriations of the fiscal year just ended, along with the City's spending plans. Encumbered amounts are those subject to the legal claims of other parties due to contractual obligations (for example, commitments made through purchase orders). The City has a process for carrying forward encumbrances from one fiscal year to the next.

However, each year there are a small number of important projects the City carries forward into the next year with unencumbered funds. The reappropriations process is used for these projects, which are generally one-time needs. Although the Municipal Code also requires that the Council provide final approval once the accounting books are closed, the Council must provide a preliminary approval at this time to allow the reappropriations to move forward.

In 1995, the Municipal Code was amended to allow the Council to preliminarily approve the reappropriations (Chapter 2.28, Section 2.28.090) because projects may need funding in the first part of the fiscal year. The Municipal Code also states that unless amended by Council, the appropriations of capital improvement funds for project expenditures shall continue in full force and effect until the purpose for which each was made has been accomplished or abandoned. The purpose of any capital appropriation is deemed abandoned if two years pass

Attachment A

without any expenditure from the appropriation. On August 18, 2014, the Finance Committee approved a recommendation to amend Chapter 2.28, Section 2.28.090 of the Municipal Code to eliminate the provision allowing for the automatic reappropriation of capital improvement funds. The City Council is scheduled to approve this change in to the Municipal Code at the September 22, 2014 City Council meeting. If this ordinance change is approved by the City Council, staff will bring forth a second reading of the ordinance and the ordinance will become effective 30 days after the second reading. Therefore, this change would not affect the FY 2014 reappropriation process.

Discussion

As noted above, the Municipal Code requires the “preliminary” approval of reappropriations, with final approval by the City Council at the same time as the normal year-end closing ordinance. Attachment A identifies those reappropriation requests that staff recommends for preliminary approval, including any capital projects that have had no expenditures within the last two years. The projects for which reappropriations are recommended can generally be put in the following categories:

- **Timing and Workload Delays-** Certain projects were delayed due to competing workload demands, appropriation of funds late in the fiscal year, or other unanticipated delays. Examples of projects in this category include the Police Utilization Study, Airport Legal Outside Counsel, Comprehensive Plan, Business Registry Certificate Program, Ecological Footprint Analysis, Virtual Private Network Upgrade, Virtual Private Cloud, and Council Chambers Voting System Replacement.
- **Capital Projects with no Expenditures in FY 2014 or FY 2013-** A limited number of capital projects have not had funds expended for two years, however staff still intends to complete the project. As mentioned previously in the report, appropriation of capital improvement funds, per the existing Municipal Code, are to remain in full force and effect until the purpose for which each was made has been accomplished or abandoned. The purpose of any capital appropriation is deemed abandoned if two years pass without any expenditure from the appropriation. There are two projects that fall into this category (Municipal Services Center Facilities Study and Long Range CCTV Cameras). It is anticipated that work will commence on these projects during FY 2015.
- **Library Materials-** Savings were realized in the area of Library Materials in FY 2014 in anticipation of the 2015 openings of Mitchell Park Library and the Rinconada Library. These funds, from the Palo Alto Library Foundation, will allow for the library to purchase publications and materials for library patrons.
- **Teen Programs-** At the June 2, 2014 City Council meeting, the City Council approved a recommendation from the Policy and Services Committee to use the net revenue collected from 455 Bryant Street in Fiscal Years 2009 through 2013 (\$213,834) to fund

Attachment A

Teen Programs. Per City Council action/direction, the net revenue from prior years in the amount of \$213,834 in addition to \$84,000 for Fiscal Year 2014 for a total of \$297,834 is to be brought forward for reappropriation. A long term expenditure plan will be brought to the City Council in fall 2014, including the use of estimated Fiscal Year 2015 revenue of \$84,000.

- **Management and Professional Development funds-** A number of City employees, as part of their compensation plan, are eligible for certain self-improvement activities. These funds are available to certain employees for civic and professional association memberships, conference participation and travel, educational programs, certain tuition costs, and professional and trade journal subscriptions, and are recommended to be carried over to Fiscal Year 2015 to improve and supplement the job and professional skills of employees.

Resource Impact

The requested items have been previously reviewed and approved by City Council as part of annual budget processes. Staff has determined that sufficient funds exist to allow for the approval of the attached Fiscal Year 2014 reappropriations list (Attachment A). For Fiscal Year 2015, staff recommends \$1.6 million in carryover funds in the General Fund, and \$0.8 million across all other funds.

Policy Implications

This recommendation is consistent with adopted Council policy.

Environmental Review (If Applicable)

The action recommended is not a project for the purposes of the California Environmental Quality Act.

Attachments:

- ATTACHMENT A: Reappropriations to FY 2015 CMR (XLSX)

Attachment A

2014 Reappropriations

Attachment A			
General Fund			
Department	Fund	Amount Recommended	Reappropriation Justification
City Manager's Office	General Fund	35,000	Business Registry Certificate Program: At the April 29, 2014 City Council meeting, the Council approved a recommendation to fund a Business Registry Certificate (BRC) Ordinance and Fee Program as a full cost-recovery replacement/enhancement of the existing Use Certificate Process, with funds from the City Council Contingency. These funds were to be used for start-up costs including outreach, training, and program/ technology development; however, staff was not able to work on this project due to other competing priorities and the funding becoming available late in the fiscal year. Staff committed to return to Council before December 30, 2014 for approval of the BRC ordinance and program implementation and launch.
City Manager's Office	General Fund	25,000	Electric Vehicle Consultant: At the May 13, 2014 Policy and Services Committee Meeting, an ordinance was approved requiring all new multi-family residential and non-residential construction to provide for current or future installation of electric vehicle (EV) chargers at the recommendation of the Electric Vehicle Supply Equipment Task Force. Funding was allocated on June 12, 2014 from the City Manager's Contingency to hire a consultant to implement this direction and guide developers in technical equipment decision making as well as provide training to staff during the review process; however, since this was not approved until the end of Fiscal Year 2014, staff could not complete the contract before the end of the fiscal year. On June 16, the City Council approved the ordinance change.
City Manager's Office	General Fund	25,000	Ecological Footprint Analysis: A study is needed to assess the demand and consumption of resources by the City as a whole compared to the availability of resources in the ecosystem surrounding and supporting the City. The results will provide a Palo Alto Consumption Land Use Matrix (CLUM) and the data from the CLUM will be used for the subsequent Climate Action Plan, which was presented to the City Council on August 11, 2014. Funding was allocated from the City Manager's Contingency in FY 2014 to conduct this study; however, staff was not able to complete the project in Fiscal Year 2014.

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2014 Reappropriations

Department	Fund	Amount Recommended	Reappropriation Justification
Community Services	General Fund	297,834	Teen Programs: At the June 2, 2014 City Council meeting, the Council approved a recommendation from the Policy and Services Committee to use the net revenue collected from 455 Bryant Street in Fiscal Years 2009 through 2013 (\$213,834) to fund Teen Programs for Fiscal Year 2015. Per Council action, the fund balance of \$213,834 is to be reappropriated in addition to the \$84,000 in Fiscal Year 2014 proceeds for a total of \$297,834. A long-term expenditure plan will be brought to Council in fall 2014, including use the estimated revenue for Fiscal Year 2015 of \$84,000.
Development Services/Fire	General Fund	50,000	Digitize Fire Prevention Records: This funding will be used to digitize historical records in the Fire Prevention Bureau (FPB) and implement an electronic records management system for historical and future documents with collaboration from the Information Technology (IT) Department. This funding was appropriated in the Fire Department as part of the Fiscal Year 2014 Operating Budget; however, the IT Department is still developing a citywide electronic records management strategy. As part of the Fiscal Year 2015 Operating Budget, FPB was moved from the Fire Department to the Development Services Department. Reappropriation of these funds to the Development Services Department will allow the FPB to move forward with the digitization of their records and move the electronic records into a records management system once IT implements a citywide solution.
Library	General Fund	600,000	Library Publications: In Fiscal Year 2012, the library received a donation of \$1.9 million from the Palo Alto Library Foundation, of which \$1.4 million was appropriated to the CIP and the balance of \$500,000 was appropriated to the General Fund for the purchase of library collection materials (CMR 2258). The remaining General Fund balance of \$100,000 has been reappropriated through Fiscal Year 2014 in anticipation of the completion of the new Mitchell Park library. In addition, a second donation of \$1.2 million was received from the Palo Alto Library Foundation in Fiscal Year 2014 (CMR 4092) of which \$500,000 is requested for reappropriation in anticipation of completion of the new Rinconada library in Fiscal Year 2015. The balance of \$100,000 from CMR 2258 and \$500,000 from CMR 4092, for a total of \$600,000, will be used for the purchase of collection materials in Fiscal Year 2015 in order to provide library patrons with the most current publications and productions.
People Strategy and Operations	General Fund	50,000	Temporary Salaries: Two employees, one working as a Human Resources Assistant and one working as a Labor Relations Manager will be out on maternity leave for approximately six months in Fiscal Year 2015. Reappropriating Fiscal Year 2014 vacancy savings will allow PSO to hire temporary staff to backfill for the vacancies in Fiscal Year 2015.

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2014 Reappropriations

Department	Fund	Amount Recommended	Reappropriation Justification
People Strategy and Operations	General Fund	165,000	Management Development: Savings from Fiscal Year 2013 was carried forward to Fiscal Year 2014 to develop a citywide management training program; however, staffing resources were not available in Fiscal Year 2014 in PSO to fully implement the program. PSO is fully staffed going into Fiscal Year 2015, so this funding (\$85,000 in savings from FY 2013 and \$80,000 from FY 2014) will be used for training programs in the following areas: Civics and Citizen Engagement, Leadership and Talent Exchange, Budget, Finance and Procurement, Interpersonal communication, Ethics and legal awareness, Presentation Skills, Business Writing, Time Management, Project management, Change Management, SkillSoft for Computer skills, Safety & Security and Personal and Professional Development.
People Strategy and Operations	General Fund	25,000	Wellness Program: Funding will be used to hire a third party vendor to create a holistic, accessible and fun employee wellness program that encourages and supports healthy eating, work life balance, and an active lifestyle. The vendor will be responsible for managing a wellness website for City staff, organizing training seminars, coordinating coaching, organizing team challenges, organizing an incentive program, coordinating biometric screening, and reporting on the overall program. The City launched an RFP in Fiscal Year 2014 and received several responses; however, a vendor was unable to be selected before the end of FY 2014. The Department is currently in the process of reviewing the proposals and anticipates selecting a vendor prior to the City's Health and Wellness Fair in early October 2014.
Planning & Community Environment	General Fund	256,596	Comprehensive Plan: The Comprehensive Plan update is a large project involving significant community engagement. The Plan is scheduled for completion at the end of 2015. Funds were budgeted in FY 2014 and \$56,596 is available for reappropriation in addition to the Council approved a BAO on March 17, 2014 for an additional \$200,000. These expenses include meetings, advertising, supplies, note taking, and additional professional services to address unanticipated events and needs.
Police	General Fund	78,000	Police Utilization Study: In Fiscal Year 2013, funding was allocated for the department to hire a consultant to conduct a utilization study of overall police operations; however the study was not completed due to competing workload demands. The funds were reappropriated to Fiscal Year 2014 to conduct the study; however, the Technical Services Division had many other projects that took precedence (Tri-City Computer Aided Dispatch, Records Management System, Patrol Vehicle Mobile Audio Video, etc.) and were again unable to conduct the utilization study. Reappropriation of these funds will allow Technical Services staff to determine the scope of the study, integrate it into their workload, and hire a consultant to conduct the study in Fiscal Year 2015.
		\$ 1,607,430	Total General Fund Reappropriations

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2014 Reappropriations

Department	Fund	Amount Recommended	Reappropriation Justification
Other Funds			
Fund	Fund	Rec. Amount	Reappropriation Justification
Airport Fund	530	50,000	Airport Legal Outside Counsel: On August 11, 2014 the City Council approved the City's takeover of the Alto Airport, three years sooner than the end of the lease (2017) with the County of Santa Clara. The 2015 Adopted Operating Budget has assumed a Fiscal Year 2015 takeover. There were numerous documents that needed to be written, negotiated, and approved by the City Council prior to the City taking back ownership of the operations. This reappropriation will support outside legal counsel required due to the workload of the City Attorney's Office and specific expertise needed in this transaction. Due to the volume and complexity of the work associated with the takeover, it is anticipated that additional resources, above and beyond this \$50,000, will be required for Airport related outside legal counsel for Fiscal Year 2015.
Capital Improvement Fund	471	249,780	Municipal Services Center Facilities Study: This project will study options for relocating City functions, personnel, and equipment currently operating out of the Municipal Services Center (MSC) and Animal Services Center (ASC), and then repurposing the sites to produce long term economic benefits for the City. Over the past year, staff has developed a scope of services that could be performed by a consultant team to advance the project, but the preparation and issuance of an RFP has yet to be completed. Public Works staff plans to advance this project in Fiscal Year 2015.
Capital Improvement Fund	471	65,000	Long Range CCTV Cameras: Reappropriating these funds will allow the Fire Department to purchase a fire weather camera to replace the current outdated camera that is mounted by Fire Station 8 in Foothill Park. This funding was originally appropriated as part of the FD-13000 CIP to replace the existing fire weather camera and add a second camera with thermal detection capabilities to act as an early warning system for fires in the foothills south of Palo Alto. The technology needs for the project were reevaluated in Fiscal Year 2014, and it was determined that the current funding will only be able fund the replacement of the fire weather camera. Reappropriation of these funds will allow for the purchase of the replacement camera in Fiscal Year 2015. The second thermal detection camera is expected to be brought back for Council consideration in the future as a separate CIP.

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2014 Reappropriations

Department	Fund	Amount Recommended	Reappropriation Justification
Storm Drainage Fund	528	45,000	Storm Drainage Pump Station: This reappropriation will allow for a repair to one of the 24' pumps at the Storm Pump Station located at the Airport. During a routine inspection, it was recently discovered that water was leading from one of the pumps, which could lead to larger damages. The repair was not completed in Fiscal Year 2014 as a portion of the funding was used for design and configuration of storm software, a maintenance contract for storm software, and debris disposal. Funding will be used, in conjunction with Fiscal Year 2015 approved funding, to repair the pump in Fiscal Year 2015.
Technology Fund	682	35,000	Council Chambers Voting System Replacement: Reappropriating these funds will allow for the replacement of the existing analog voting system in the Council Chambers, which is over 20 years old and no longer supported by the manufacturer. This project was unable to be completed in Fiscal Year 2014 due to other infrastructure and technology related projects that took precedence.
Technology Fund	682	50,000	Virtual Private Network Upgrade: Reappropriating these funds will allow the IT Department to complete upgrades to the Virtual Private Network (VPN) in order to enhance the security and scalability of the computing network, create additional functionality and access of mobile devices to the network, and ensure the City can upgrade to the most current operating system. This project was approved as part of the application replacement funding in the Fiscal Year 2014 Budget; however, IT was unable to be complete the project due to other infrastructure and technology related projects that took precedence.
Technology Fund	682	275,000	Virtual Private Cloud: Reappropriating these funds will allow the IT Department to implement a primary and redundant storage area network through the Virtual Private Cloud. This project was approved as part of the infrastructure replacement funding in the Fiscal Year 2014 Budget, and the Department was going to award the project prior to the end of Fiscal Year 2014; however, a vendor could not be selected to meet that deadline. This funding will allow the project to be awarded in Fiscal Year 2015.
		\$ 769,780	Total Other Funds Reappropriations
		\$ 2,377,210	Total- All Reappropriations



FINANCE COMMITTEE MINUTES

Regular Meeting
September 16, 2014

Chairperson Berman called the meeting to order at 7:04 P.M. in the Council Chambers, 250 Hamilton Avenue, Palo Alto, California.

Present: Berman (Chair), Burt, Kniss

Absent: Holman

ORAL COMMUNICATIONS

None

AGENDA ITEMS

Chair Berman encouraged the community and public watching to apply for the Architectural Review Board, Historic Resource Board, and the Planning & Transportation Commission.

1. Approval of Fiscal Year 2014 Reappropriation Requests to be Carried Forward Into Fiscal Year 2015.

Walter Rossmann, Budget Director, requested the Finance Committee (Committee) recommend the full Council approve the annual process of carrying funds forward from Fiscal Year (FY) 2014 to FY 2015. The funds were generally for projects that could not be completed within the initial Fiscal Year either due to contractual issues or the Request for Proposal (RFP) process was delayed. The amount being requested to carry forward was \$1.6 million in the General Fund and \$800,000 in other Funds.

Vice Mayor Kniss asked why there were question marks on the Staff Report.

Mr. Rossmann explained the areas darkened and with question marks were Staff's working areas and were inadvertently printed. The City Manager had approved the reappropriation of funds for the People, Strategy and Operations (PSO) for training and for the Comprehensive Plan.

Council Member Burt asked for a status update on the reallocation of funds associated with the business registry. The Staff report noted there were

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other competing priorities where the business registry was unable to be worked on. The business registry was a Council priority and he felt other actions would be informed by the business registry process.

Mr. Rossmann stated the business registry certificate program was scheduled to go before the Council on September 22nd. The issue was the Funds did not become available until later in the FY14 so Staff was unable to encumber the funds in time and recommends that the funds be carried forward to FY15.

MOTION: Vice Mayor Kniss moved, seconded by Council Member Burt that that the Finance Committee preliminarily approve the Fiscal Year 2014 reappropriations to be carried forward into Fiscal Year 2015 and direct Staff to forward the Finance Committee's recommendation to the City Council.

MOTION PASSED: 3-0 Holman absent

2. Utilities Advisory Recommendation that the Finance Committee Recommend that the City Council Approve Design Guidelines for the 2014 Water Utility Drought Rate Cost of Service Study.

Jon Abendschein, Senior Resources Planner, informed the Finance Committee (Committee) of the proposed drought plans for the City. The San Francisco Public Utilities Commission (SFPUC) has asked for a voluntary 10 percent reduction from all of their wholesale customers. Palo Alto residents and businesses have responded positively to the recommendation with a 15 percent reduction in usage and the City facilities have made a 25 percent reduction. Staff proposed designing drought rate guidelines in the event the drought continued and there was a need for revenue. The Utilities Department felt updating the 2012 Cost of Service Study to include rates for drought conditions was more cost effective than requesting a new study. Staff understood altering a Cost of Services Study was difficult once it was completed; therefore, they were seeking policy guidance. There were a few reasons for having a drought rate available: 1) preserve the Utilities financial position and 2) to send a price signal to make some contribution toward water conservation goals. Drought rates modified or replaced normal rates: 1) there could be a separate set of rates that replaced normal rates or 2) there could be a surcharge on normal year rates. The rates could be implemented when the SFPUC declared a Stage 2 drought alert and could be deactivated when the restrictions were removed.

Council Member Burt said depending on which mandated reduction SFPUC implemented the corresponding costs would reflect on the rates.

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Mr. Abendschein stated yes, that was the goal. If the household or business met the reduction goal their bills would not reflect a change.

Vice Mayor Kniss stated Staff mentioned the SFPUC worked with an 8.5 year design drought. She asked where Palo Alto was within that cycle.

Mr. Abendschein believed the City was in the second year of the design drought.

Vice Mayor Kniss recalled in the early 1990's there was a long term plan in place and the City was not as sophisticated in dealing with the situation. She asked whether Staff was reviewing the past to learn from the errors made.

Council Member Burt noted a lesson learned by SFPUC was not to waste water burning inexpensive hydro in the middle of a drought.

Mr. Abendschein acknowledged the SFPUC had made changes and continued to maximize the water benefits rather than the hydro benefits. Staff had an archive of past events and they had been reviewing them for reference.

Vice Mayor Kniss stated the drought in the 1990's was significant and she was pleased Staff was reviewing the events to avoid a reoccurrence.

Mr. Abendschein presented a hypothetical customer bill with and without the drought reductions.

Vice Mayor Kniss asked what the starting usage point was for determining the customer usage baseline.

Mr. Abendschein said the average baseline was the first calendar year prior to the drought. He noted there was a difference in indoor and outdoor water usage.

Vice Mayor Kniss shared a concern from a customer who had been conserving for the sake of being prepared so when the review process occurs their rate would not be reflective of a normal use.

Chair Berman asked Committee Members to refrain from asking questions until after the presentation because some of the questions may be answered.

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Mr. Abendschein stated tier 1 users would need to reduce by 9 percent, tier 2 users would need to reduce by 15 percent and tier 3 users would need to reduce by 30 percent. He discussed various reduction rate options for residential and non-residential. He explained the timeline was to receive feedback from the Utilities Advisory Commission (UAC) and the Committee then provide said feedback to the Consultant to begin the analysis during the month of September. Return to the UAC and the Committee with a draft rate schedule and request preliminary approval in December.

Herb Borock understood the role of the Committee was to advise Council and not provide advice to Staff. He recalled a few years back Council did not approve a three tier process.

John Foster, Utilities Advisory Commission Chair, addressed a point of variation between the UAC and Staff recommendations. Fundamentally there were three points the UAC discussed changing of the Staff recommendation. The first change was agreed upon by the Staff and was made; therefore, was no longer an issue. The second was Staff allowing the Cost of Services Analysis to review three tiers. The third was individual allocations for residential customers. The UAC recommendation was to drop the three tier language and not to recommend the individual residential allocations.

Chair Berman clarified the language recommended by the UAC would not preclude three tiers; it was a bit more general.

Mr. Foster stated that was correct. The Staff recommendation had the firm providing the Cost of Service Study to look at three tiers. The question was whether or not the firm could review the process without the language and the reply was yes.

Vice Mayor Kniss asked if there was a new normal as far as water consumption. She understood that was not a discussion for the table; although she requested the matter be broached.

Mr. Foster agreed with the need for a new normal consumption usage. He, the UAC and Staff had discussed the subject of recycled water usage. One of the challenges with that option was the pipe systems.

Valerie Fong, Director of Utilities, noted the City Manager was requesting Staff make recycled water a higher priority. Staff was researching available funding sources for such a project.

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Council Member Burt mentioned the City had a preliminary study on running a recycled water pipeline up Page Mill Road; there was already one installed running down to Shoreline Road. The Page Mill Road project was put on hold five years ago because of objections from the Stanford Research Park with concerns with the total dissolved solids and the salinity of the water. The City had driven their Total Dissolved Solids (TDS) down principally because it was discovered the incoming pipes from Shoreline Road had holes in them and the City was treating salt water. The current TDS was at a level of water quality that there should not be objections for using the water for landscaping. The scheduled TDS for 2015 were comparable to other cities drinking water. The Page Mill Road project was a Public Works project and not that of Utilities.

Ms. Fong believed the pipes portion of the project belonged to Utilities although the treatment portion was Public Works.

Council Member Burt stated the Santa Clara Valley Water District (SCVLWD) were interested in contributing to the capital costs of recycled system in ways similar to where they have in other areas of the Water District. The outstanding question was whether to perform reverse osmosis treatment rendering the water basically drinkable which was what the City of San Jose had just begun. The decision was a major policy discussion that would approve or prevent the moving forward.

Vice Mayor Kniss agreed the discussion was not the issue but the decision to use water in the correct way.

Council Member Burt said although the recycled water projects may not affect the current recommendations it was a subject that needed to be on the table. He asked whether there was a decision made on right-of-way tree watering during droughts.

Mr. Abendschein stated he would research and return an answer to the Committee at a later date.

Council Member Burt requested Staff provide the response to the full Council via electronic. He asked about indoor reduction opportunities. The primary reduction opportunity was outdoor landscaping but he asked whether Staff reviewed what reductions there might be with best practices including changed in appliances.

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Mr. Abendschein stated there were quite a few programs in the area of appliance exchange.

Catherine Elvert, Communications Manager, noted it would be difficult to determine a percent reduction for indoor water use versus outdoor without further analysis. Staff discussed with the Council how the population had increased by approximately 14 percent with a reduced water usage of 4 to 6 percent.

Council Member Burt corrected the water reduction had been closer to 35 percent.

Ms. Elvert explained there were a variety of efficiency programs for indoor water use including rebates and free surveys. The programs were offered to residential and commercial customers. Staff could review the total citywide aggregate water use for indoor consumption versus outdoor and return to the Committee with further analysis with the potential. She noted there would likely be a greater potential in the residential sector than the commercial.

Council Member Burt agreed there was an interest and felt there would be interest in different levels of implementation. He believed there was a good amount of indoor opportunity for reduction but he was unaware of the percentage and what it would take to achieve it. Whether there was a new normal of available water, which may or may not happen, the City should be thinking of a new standard on their own of the amount of water consumed for other reasons; less damage to natural water ways or other reasons to state these were sustainability goals of Palo Alto. He asked out of 20 years we have had what percentage increase in the population in the City, what percentage reduction in potable water use and also what percentage reduction per capita.

Jane Ratchye, Assistant Director of Utilities, stated the 2015 Urban Water Management Plan was being released soon and many of the questioned being asked including the analysis would be performed in the Plan.

Council Member Burt asked if the Plan was the appropriate place to bring up matters such as gray water and billing code related changes.

Ms. Ratchye stated yes, the Plan should cover all of the potential water sources discussed.

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Council Member Burt was pleased the information included in the utility bill was reflective of the context of reduction and conservativeness in simple terms.

Chair Berman asked for clarification on the law stating the City could only account for 30 percent of fixed costs through fixed fees.

Mr. Abendschein clarified it was not a law although it was a best management practice from the California Urban Water Conservation Council which the City was a signatory of.

Chair Berman asked was it because of that the fixed costs do not change and as the variable amounts of water use changes needed to be accounted for in the fixed rates.

Ms. Fong explained basically all costs were fixed. The City recovered the costs through part volumetric and part fixed cost rates. The goal was to balance through a conservation signal and still recover all of the costs which were fixed.

Chair Berman attempted to sum up the Utility strategy. The first tier of water used tended to be for indoor water usage. There was not a large amount of opportunity to cut usage, and because of that there would not be a significant cut. The next tier was outdoor use which had a greater opportunity to cut through certain available measures; therefore, the cost was increased in the third tier. The idea of the size of the lot did not correlate to the usage of water which was the driving force for the three tier approach.

Mr. Abendschein agreed Chair Berman relayed the process correctly.

Council Member Burt misunderstood the comment of the entire City's costs were fixed. He believed the rates were set by SFPUC for the commodity.

Ms. Fong acknowledged she may have over simplified; although, even the SFPUC costs were fixed.

Council Member Burt agreed the SFPUC costs were fixed but the City's costs from there were not.

Ms. Fong said that was correct.

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Ms. Ratchye expanded on the fixed rates from SFPUC. Whether the fees were paid in advance or later the costs were fixed. San Francisco's costs were fixed if people used a lower amount the City paid those costs to San Francisco.

Council Member Burt asked if the City had no reduction in usage and San Francisco increased the rates, if San Francisco increased the rates and all customers had a proportionate across the board reduction of 13 percent; based on the 10 to 15 percent rate increase, the commodity rates remained the same. If the consumption was dropped by 25 percent in Palo Alto but only 5 percent in another city Palo Alto would have a lower commodity cost.

Ms. Ratchye agreed, the cost related to the amount of savings Palo Alto had relative to other cities. But, if all of the cities saved the same amount it was fixed.

Council Member Burt agreed the SFPUC costs were fixed although how they allocated the fees was based on the cities consumption.

Vice Mayor Kniss said water was a scarce recourse but she expressed the considered 8 year drought may not be over at that anticipated time. She stated the water conservation needed to be looked at on a regional level and her understanding was Palo Alto was doing well.

Mr. Abendschein stated over the past decade the Palo Alto residents has decreased consumption by more than other Bay Area cities.

Vice Mayor Kniss understood where the City needed to go although she expressed there would be residents speaking out about their conservation versus higher rates.

Ms. Fong was aware of the conflict between rates and consumption. During the review of the Cost of Service Study Staff would be looking at the users who used the least and the goal would be to impact them the least.

Vice Mayor Kniss suggested a Public Relations campaign to personalize the acknowledgement of consumption.

Council Member Burt noted Council Member Klein made the assertion that even though the City had greater reductions than other jurisdictions, on a per capita basis Palo Alto was still at the higher end of SFPUC customers.

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Which did not necessarily give clarity on whether Palo Altans were water guzzlers or not. He was not certain what Council Member Klein was referring to when looking at total water versus night time population when the City had a much higher daytime population than other jurisdictions. He would be interested in the upcoming Master Plan meeting so that Council and the Community began to understand context, and what the true baseline comparison was versus other cities in the region.

Ms. Ratchye explained the per capita number was based on residential usage only. The calculation was residential usage divided by the nighttime population. She believed there were only 4 other cities higher than Palo Alto. Palo Alto also had higher than normal lot sizes.

Council Member Burt felt Redwood City and Menlo Park would be valid comparisons for water usage, lot sizes and house size.

Chair Berman asked the percentage the City cuts its usage of water in the past year.

Mr. Abendschein stated 25 percent cumulative savings over the previous year since February of 2014.

Chair Berman said that was City operations. He felt it was notable the City was reducing water usage as they were requesting the community to.

Mr. Abendschein mentioned the City began utilizing recycled water at the Municipal Golf Course and exchanged plantings for drought resistant greenery. Those were two examples of how the City improved their water consumption.

MOTION: Vice Mayor Kniss moved, seconded by Chair Berman to recommend the City Council approve the proposed Design Guidelines for the 2014 Water Utility Drought Rate Cost of Service Study as shown in Attachment A of the Staff report.

MOTION PASSED: 3-0 Holman absent

FUTURE MEETINGS AND AGENDAS

Lalo Perez, Director of Administrative Services stated the next meeting was October 7, 2014.

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ADJOURNMENT: The meeting was adjourned at 8:19 P.M.