



# FINANCE COMMITTEE FINAL MINUTES

Regular Meeting  
March 03, 2020

The Finance Committee of the City of Palo Alto met on this date in the Community Meeting Room at 7:00 P.M.

Present: Fine, Kniss, Tanaka (Chair)

Absent: DuBois

## Oral Communications

None

## Agenda Items

1. Review and Recommend to Council the Preliminary Operating Plan and new Municipal Fees for the Junior Museum and Zoo.

Kristen O’Kane, Director of Community Services introduced John Aikin, Manager of the Junior Museum and Zoo (JMZ) to the Finance Committee (Committee). She noted that the JMZ was going to open in October, 2020.

John Aikin, Manager of Junior Museum & Zoo summarized that due to the expansion of the JMZ, Staff’s recommendation was to expand personnel and non-personnel expenses and set new fees to offset increased costs. He explained the new features of the zoo and the new goals of the zoo. There were currently 8.7 benefited positions and a total of almost 16 Full-Time Equivalent (FTE) Staff positions. Staff was proposing one additional benefited position and some additional 5.79 part-time positions. Non-personnel budget recommendations included increasing marketing, janitorial services, veterinary care and animal food, maintenance of aquatic features, exhibit maintenance, association memberships and participation in wildlife conservation programs. Pricing recommendations included a \$10 fee for the daily entrance, family membership Resident Fee of \$110, annual Family Plus Resident Membership Fee of \$185 and several other pricing packages for non-residents; the Blue Star Museum Program and the Museums for All Programs were going to continue. In Comparison to neighboring museums, the JMZ continued to have low entry fees. The impact for the General Fund was predicted to be \$62,000 for the first Fiscal Year (FY), with a cost recovery of

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50 percent. Staff presented three alternatives to the Committee to discuss and review. Alternative One had no entry fee, which increased the General Fund impact by \$2,845,000 and included a 20.88 FTE; Alternative Two had heavier floor programming, which increased the General Fund impact by \$2,275,000 and included a 28.53 FTE; and Alternative Three maximized the floor program, which increased the General Fund impact by \$2,575,000 and included a 32.53 FTE. Along with several crowd control strategies, Staff was looking to have additional personnel positions approved but not have them funded until they were needed. The next steps were to seek City Council (Council) direction on donor recognition and to develop a new Operating Agreement with Staff and the Friends of the Junior Museum and Zoo.

Council Member Kniss asked about the net that was to go over the zoo inside.

Mr. Aikin explained that the net was to protect the animals and birds that were loose in the zoo as well as facilitate play areas for children to explore.

Council Member Kniss wanted more information on donor recognition.

Mr. Aikin reported that donors could sponsor exhibits and throughout the zoo, they would be recognized through various means.

Lauren Angelo, Co-President of the Friends of the Junior Museum and Zoo added that there was a total of 250 donors that the Friends of the JMZ wanted to recognize, which fell into various categories based on how much was donated.

Council Member Kniss inquired about what the new signage was going to look like.

Mr. Aikin confirmed that the existing sign was to remain on Middlefield Road, but there was to be a new sign placed at the entrance, which also would hold a donor plaque.

Council Member Kniss was very excited about the project.

Mr. Aikin disclosed that there was a series of openings planned with a grand opening planned for October 3, 2020.

Ms. O'Kane invited the Committee to come and tour the site while it was under construction.

Mayor Fine was happy to see the project nearing completion. He was in support of expanding the operating hours but did not think it was necessary to market that children under 1 year of age were to receive free entry.

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Mr. Aikin specified that the strategy was to get younger children to come to the zoo so that they would continue to come throughout their childhood.

Mayor Fine was concerned that no additional management positions were being proposed.

Mr. Aikin reported that Staff was looking to come back in a couple of years to request a Management Analyst Position.

Mayor Fine wanted to know what was included in the membership.

Mr. Aikin responded that it was an annual pass, but it helped build community with the JMZ Staff and patrons that frequently visited by giving them special membership hours and invitations to events.

Council Member Kniss asked how many animals were at the zoo and if there were any exotic animals.

Mr. Aikin replied that most of the animals were fish, birds and meerkats, as well as the current small mammals and reptiles.

Chair Tanaka inquired how other zoos in the surrounding cities compared in size to the JMZ.

Mr. Aikin stated that a marketing consultant was analyzing surrounding zoos and how they did their marketing. He added that Children's Fairyland did not include animals, but it was the most comparable in size to the JMZ.

Chair Tanaka was interested in knowing if a \$10 entry fee was adequate for the size of the JMZ, in comparison to other zoo's and their entry fees. In knowing that the JMZ was located at Cubberley, he was interested in knowing the resource impact and whether it was going to be different from the resource impact at the previous location.

Mr. Aikin explained that resource impact was the same no matter where the JMZ was located.

Chair Tanaka suggested doing surveys of guests on how they felt regarding ticket prices once the facility opened. He asked what the break down was for residents versus non-residents attending the zoo.

Mr. Aikin reported that in 2017, 20 percent of guests were Palo Alto residents.

Council Member Kniss questioned if that was low or high.

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Mr. Aikin disclosed that it was low, and he assumed that was because the number of children in Palo Alto (City) was decreasing.

Chair Tanaka asked how Staff determined the new hours of operations.

Mr. Aikin stated that it was driven by guests asking for Sunday hours.

Chair Tanaka thought that if Staff was able to establish the right hours of operations, that would increase revenues.

Mr. Aikin agreed that longer operating hours was something Staff was interested in, going forward.

Chair Tanaka believed that extended hours, in the beginning, was going to bring more people in.

Ms. O'Kane remarked that Staff would look into that suggestion.

Chair Tanaka suggested that non-residents pay a smaller increase in daily ticket prices.

Mr. Aikin said the challenge was having to check every guest's identification because that slowed down the entrance flow.

Chair Tanaka advised resident discount tickets should be purchased online only and suggested adults be charged a higher entrance fee than children.

Mr. Aikin replied that the idea behind a simple fee was to keep the entrance flow moving and added that it was a trend in children's museums to have one fee.

Jazmin LeBlanc, Assistant Director of Community Services Department pointed out that Staff was looking to include a range for the entrance fee in the Municipal Fee Schedule so that Staff had the flexibility to adjust the fee when appropriate.

**MOTION:** Council Member Kniss moved, seconded by Mayor Fine to recommend the City Council accept the Proposed Operating Plan for the Junior Museum and Zoo, including the recommended staffing complement and cost recovery levels.

Council Member Kniss thought it was important to market the JMZ so that it was accessible to guests with all abilities.

Mayor Fine disagreed with Chair Tanaka's suggestion that entrance fees should be simple at first.

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Chair Tanaka asked the Committee for more feedback regarding the hours of operation.

Mayor Fine felt Staff was in a position to figure out the best hours of operation.

Council Member Kniss agreed with Mayor Fine.

Chair Tanaka wanted to see flexibility in the budget which allowed Staff to open the JMZ earlier in the morning.

Ed Shikada, City Manager declared that the current Motion did not restrict Staff's ability to adjust operating hours.

Chair Tanaka reiterated that he wanted to see an increase in the part-time employee budget so that the JMZ was able to be open longer.

Council Member Kniss agreed with Mr. Shikada.

Mr. Shikada emphasized that the Committee was not approving a Budget.

Chair Tanaka asked for clarification on what Staff was seeking from the Committee.

Ms. O'Kane clarified that the Committee was to adopt the increased Staffing recommendations and fees.

Mayor Fine believed that the Motion included flexibility for Staff to increase operating hours if they believed it was necessary.

Council Member Kniss suggested Staff explore extended weekend hours before increasing weekday hours.

Chair Tanaka agreed with Council Member Kniss. He restated that he wanted to see a difference between residents and non-residents when it came to the daily entrance ticket price.

Council Member Kniss asked why there was no difference in Staff's proposal.

Ms. O'Kane thought it was to help with the flow into the JMZ and to reduce congestion.

Council Member Kniss had no objection to adding different ticket prices for residents versus non-residents but she wanted to know if the Committee supported that.

Mayor Fine said Staff was able to make that change if needed.

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Council Member Kniss was not going to support having a discount for residents for daily ticket prices.

**MOTION PASSED:** 3-0 DuBois Absent

2. Preliminary Financial Forecasts and Proposed Rate Changes for Electric, Gas, Water, and Wastewater Collection Utilities for Fiscal Year 2021.

Dean Batchelor, Director of Utilities began by saying the main priority for the Utilities Department was cost containment. He introduced Eric Keniston, Jon Abendschein and Lisa Bilir.

Eric Keniston, Senior Resource Planner noted that Staff was reviewing the Electric, Gas, Water and Wastewater Collection Funds. The main driver for cost increases was aging infrastructure. Staff was projecting a 2 percent increase, or \$6 increase to the customer's monthly bill, and an overall 3 percent bill increase for the next 4 to 5 years.

Mayor Fine requested a chart showing the median cost for the different buckets on a certain bill.

Mr. Keniston continued and said the Utilities Department was focused on using the Utilities Strategic Plan, ongoing management review for personal actions and regular review of performance metrics and expenditures to maximize cost containment. In the Electric utility, there was a short-term surplus due to better than average hydro conditions, which helped stabilize the Hydro Stabilization Reserve as well as pay off a \$10 million loan that was taken from the Special Project Reserve. In terms of Electric Cost Structure, 40 percent were distribution-related costs and 60 percent were supply related costs. Transmission costs were greatly increasing and were projected to increase at a rapid rate. Staff was looking to hire outside contractors to help with Staffing issues.

Chair Tanaka asked what load loss meant.

Mr. Keniston said load loss was a decrease in customer sales. He emphasized that when costs increased but the amount of energy used decreased, then prices went up to recover the cost that was lost.

Council Member Kniss responded that if companies were moving out or changing tenants it was important to know why they were doing that.

Jon Abendschein, Assistant Director of Utilities Resource Management noted the main driver as to why businesses were moving out of the City was price per square foot for commercial space was at a premium.

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Chair Tanaka wanted to know the Electric Rate difference between the City and Santa Clara.

Mr. Abendschein explained that the City had always been higher in electricity rates than Santa Clara, which was mainly due to higher density in commercial and industrial areas.

Mayor Fine wanted to know what the loan was for the Special Projects Reserve.

Mr. Keniston answered that in 2018 the Operation Reserve was low and so the loan was used as a short-term option to stabilize that reserve.

Chair Tanaka questioned if the loan repayment went to the General Fund.

Mr. Keniston confirmed that was correct. Cost and revenue projects for purchase costs were slightly lower in Fiscal Year (FY) 2020, and then they evened out for FY 2021 and 2022. If there was a dry year, then another loan would have to be drawn from the Hydro Stabilization Reserve to help fund additional market purchases.

Chair Tanaka declared that operational costs were increasing as well.

Mr. Keniston said the rise in operational costs was due to additional contracting work.

Mr. Abendschein interjected that the City was roughly 5 percent higher than Santa Clara, with regard to large commercial customers. For mid-size customers, the City was comparable to Santa Clara; for small sized commercial customers, the City was slightly higher than Santa Clara.

Ed Shikada, City Manager requested explanation of how much the cities were geared toward regional grid costs when compared to Santa Clara.

Mr. Abendschein claimed that 15 percent of the City's cost was from grid costs and he mentioned that Santa Clara did have an in-town generation which helped them avoid transmission charges.

Mr. Keniston presented on the Gas Utility and said the increase in rate increases was due to infrastructure projects and distribution. Staff was projecting a 5 percent overall rate increase.

Mr. Keniston emphasized that the major difference in terms of cost drivers for gas distribution was due to the Crossbore Project. Of the 5 percent increase, 3.1 percent was to cover Capital Improvement Projects (CIP) and Operations and Management Budget (OMB) expense increases. He noted that the Utilities

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Department was doing a large main replacement project every other year in the Gas, Water and Wastewater Funds.

Chair Tanaka wanted to know why the operating expense on the Gas Utility was much higher than the Electric Utility.

Mr. Shikada answered that supply was not a part of the gas rate.

Mr. Abendschein added that it was smaller because the gas supply cost was a percentage of the total cost.

Council Member Kniss pointed out that in terms of comparisons, Staff preferred comparing Pacific Gas and Electric Company (PG&E) to Santa Clara.

Chair Tanaka wanted to see comparisons of Palo Alto against other cities that owned their own utilities, not PG&E.

Mr. Abendschein emphasized that some comparisons were not apples to apples.

Mr. Shikada interjected that Staff was using these comparisons with PG&E because it was Council's direction.

Lisa Bilir, Acting Senior Resource Planner declared that Staff was proposing a rate increase of 5 percent for the Wastewater Collections to fund replacement of plant equipment and to fund increases in collection costs. Sixty percent of the cost for Wastewater Collection was for treatment and 40 percent was for the collection system. Wastewater Collection Utility managed the collection system at the Regional Water Quality Control Plant. One of the cost drivers for operation costs was that in FY 2021 there was a lower CIP budget year. Preparations needed to take place for funding for FY 2022 when higher CIP spending was going to occur. In terms of comparisons, the City was lower compared to surrounding cities but had higher rates for commercial and restaurant customers.

Chair Tanaka asked how much higher the City was in regard to the commercial and restaurant sectors.

Ms. Bilir replied commercial was roughly 11 percent higher.

Chair Tanaka wanted to know if the City of Menlo Park and Redwood City owned their wastewater treatment plant.

Phil Bobel, Assistant Director of Public Works reported that Redwood City and the City of Menlo Park were part of the Silicon Valley Clean Water Joint Powers Authority.



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Chair Tanaka questioned why there was a strong upward trend for treatment and collection operations.

Ms. Bilir conveyed that collection operations for Staff relied upon the assumptions from the Long-term Financial Forecast, as well as salary and benefits.

Mr. Bobel added that the treatment operation increase was due to salary and benefits and utility costs.

Chair Tanaka wanted to see a chart that compared operation costs for all the utilities, side by side, year by year, as well as labor costs for all utilities.

Ms. Bilir continued her discussion of the Water Utility, which had no rate increase proposed for FY 2021. She clarified that many of the CIP projects were previously budgeted and funding was available in the reserves. She confirmed that there were large rate increases being proposed for FY 2023 by the San Francisco Public Utilities Commission (SFPUC). The Rate Stabilization Reserve was used to help reduce impacts for those large rate increases. In terms of cost structure, 48 percent was used to bring water to the City and 52 percent was used for distribution of that water throughout the City. The main driver for cost increases for operations in the Water Utility was the installation of backup generators at pumping stations.

Chair Tanaka pointed out that the City had a higher water bill than surrounding cities and wanted to know why.

Ms. Bilir explained that Staff was working on a study that focused on why the City had higher rates than other cities.

Mr. Abendschein added that the City had substantially more CIPs than surrounding cities.

Chair Tanaka asked Staff why there was no money being transferred to the General Fund like with other utilities.

Mr. Abendschein stated that Staff needed to review the history of the utility.

Chair Tanaka suggested dividing up what the City controlled versus what the City did not control, being consistent throughout all charts and comparing the City's utilities to other cities that owned their own utilities.

## NO ACTION TAKEN

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## Future Meetings and Agendas

Kiely Nose, Chief Financial Officer and Director of Administrative Services reported that the March 17, 2020 meeting was cancelled; the next meetings were going to be on April 7 and 21, 2020.

Adjournment: The meeting was adjourned at 9:07 P.M.