



FINANCE COMMITTEE FINAL MINUTES

Regular Meeting
April 21, 2020

The Finance Committee of the City of Palo Alto met on this date in virtual teleconference at 7:01 P.M.

Present: Kniss, DuBois, Tanaka (Chair)

Absent:

Agenda Items

1. Adoption of a Resolution Amending Utility Rate Schedule D-1 (Storm and Surface Water Drainage) Increasing the Storm Water Management Fee by 2.5 Percent to \$15.04 per Month per Equivalent Residential Unit for Fiscal Year (FY) 2021.

Phil Bobel, Assistant Director of Environmental Services explained to the Finance Committee (Committee) that the Environmental Services Department was responsible for the financial management of the Storm Water Management Program. He expressed that Staff was seeking a recommendation from the Committee to the full City Council (Council) the adoption of the Resolution which would increase the fee by 2.5 percent. The increase for the fee was to cover the inflation rate.

Council Member Kniss inquired what surrounding cities were looked at for comparison.

Mr. Bobel answered that there is a monthly meeting of representatives from surrounding cities and an individual group for just the Bay Area that discussed the topic. He added that many surrounding cities did not have a Storm Drain Fee like Palo Alto had.

Council Member Kniss acknowledged that the City's Storm Water Committee had been successful managing they system and that the Committee was very important to the City.

Vice Mayor DuBois wanted to know how far the City was falling behind in terms of cost versus fee increases.

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Mr. Bobel reported that construction costs, employee, and salary benefits were the reasons the City was falling behind.

MOTION: Vice Mayor DuBois moved, seconded by Council Member Kniss to recommend that the City Council adopt a Resolution amending Utility Rate Schedule D-1 (Storm and Surface Water Drainage), to implement a 2.5 percent rate increase consistent with the applicable Consumer Price Index, increasing the monthly charge per Equivalent Residential Unit by \$0.36, from \$14.68 to \$15.04 for Fiscal Year 2021.

Vice Mayor DuBois questioned on how the City would pay the difference.

Mr. Bobel announced that the money difference would have to come from Capital Improvement Programs (CIP).

Chair Tanaka was surprised to see an increase being proposed because many people did not have employment. He wanted to know how much further ahead the costs were for storm water versus what was brought in and what was being charged.

Mr. Bobel responded that he would have to get back to the Chair with the answer at another time.

Chair Tanaka affirmed that was an important number to know.

Vice Mayor DuBois noted that the real question was what kind of deferred maintenance was there.

Mr. Bobel expressed that Staff would provide that answer along with Chair Tanaka's question later.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER to add to the Motion to direct Staff to bring to Council the cost per rate payer and information on deferred maintenance.

Kiely Nose, Chief Financial Officer and Director of Administrative Services pointed out that a 2.5 percent increase amounted to a \$0.32 increase on a resident's bill.

Chair Tanaka restated what the Committee members were looking for.

Mr. Bobel noted that the answers brought forward would have assumptions.

MOTION AS AMENDED: Vice Mayor DuBois moved, seconded by Council Member Kniss to recommend that the City Council adopt a Resolution amending Utility Rate Schedule D-1 (Storm and Surface Water Drainage), to

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implement a 2.5 percent rate increase consistent with the applicable Consumer Price Index, increasing the monthly charge per Equivalent Residential Unit by \$0.36, from \$14.68 to \$15.04 for Fiscal Year 2021; and direct Staff to bring to Council the cost per rate payer and information on deferred maintenance.

MOTION PASSED: 2-1 Tanaka no

2. Staff and the Utilities Advisory Commission Recommended the Finance Committee Recommend the City Council Adopt a Resolution Approving the Fiscal Year (FY) 2021 Water Utility Financial Plan, Including Proposed Reserve Transfers and an Amendment to the Water Utility Reserves Management Practices, With no Water Rate Adjustment for FY 2021.

Kiely Nose, Chief Financial Officer and Director of Administrative Services introduced Lisa Bilir, Dean Batchelor, and Jon Abendschein from the Utilities Department who presented the item to the Finance Committee (Committee).

Lisa Bilir, Senior Resource Planner announced that there was a zero percent rate increase for the Water and Waste Water Utility for Fiscal Year (FY) 2021. The Electric and Gas Utility did have a small rate increase but was to be reviewed later. She noted that the Water Utility Financial Plan did not include any Corona Virus Disease (COVID-19) possible impacts. Half of the costs related to the Water Utility were supply cost and the other half were for the distribution system. A series of Capital Improvement Projects (CIP) have been conducted and that work would continue to provide upward pressure on rates. Operation and capital cost drivers included healthcare, overhead costs, underground construction, installation of back-up generators, construction and a one-time cost related to emergency water supply and reservoir rehabilitation.

Vice Mayor DuBois asked how long Palo Alto would have to pay for the Hetch Hetchy construction work.

Ms. Bilir explained that the bonds had not been released yet but the City would be paying those bonds for 30-years.

Council Member Kniss claimed that the City had some of the best water in the County.

Jon Abendschein, Assistant Director of Utilities Water Management concurred that the water was in fact very clean.

Ms. Bilir stated that though there was no proposed rate increase, there were several CIPs taking place in FY 2020- 2021. She disclosed that the Water

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Utility was on a 2-year main replacement cycle and the next main replacement was to take place in Year 2022. Future rate projections included a 3 percent increase for FY 2022 and a 3 to 4 percent annual increase for FY 2023 through FY 2025. In terms of bill comparison, the City was 18 percent above surrounding City's averages.

Council Member Kniss wanted to know why the City had a higher bill than other Cities.

Ms. Bilir noted it was due to capital investment and water supply. Staff was conducting further investigation to come up with a more definitive answer.

Vice Mayor DuBois disclosed that Redwood City and Hayward City were the only other cities that used Hetch Hetchy.

Ms. Bilir confirmed that was correct.

Vice Mayor DuBois was interested to know why Redwood City and Hayward City's customer's bills were much lower than Palo Alto's.

Dean Batchelor, Director of Utilities added that Santa Clara used a lot of ground water but expressed that Staff would investigate Redwood City and Hayward.

Mr. Abendschein highlighted that the City invested more money in maintaining the water system and that was one of the main drivers for higher customer bills.

Ms. Bilir continued to commercial bill comparisons and the City was 8 to 11 percent above neighboring Cities averages.

Chair Tanaka asked when Staff thought the analysis comparing the City's bill to surrounding cities would be done.

Ms. Bilir answered that it was scheduled to be completed in November of 2020. She concluded that Staff was recommending that the Committee recommend to the City Council (Council) that they adopt the Resolution approving the Water Utility Financial Plan, the transfer of up to \$3 million from the Operations Reserve to the CIP Reserve in FY 2020, transfer \$5 million from the Operations Reserve to the Rate Stabilization Reserve in FY 2020, Capital Program contribution from the Operations Reserve to the CIP Reserve of up to \$8 million in FY 2021, amendments to the Water Utility Reserves Management Practice, and approve the maintenance of a balance in the Rate Stabilization Reserve through FY 2028.

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Vice Mayor DuBois wanted to know what changes were made to the Utility Reserve Management Practices.

Ms. Bilir noted that most of the changes were made in the CIP Reserve section which related to the changing of the maximum and minimum guideline of that reserve.

Vice Mayor DuBois commented that in the presentation it was noted that in FY 2019 there were unassigned funds and he asked if those unassigned funds would go into the reserve.

Ms. Bilir answered that the plan was to use those unassigned funds to bring the Operations Reserve back into the guideline range and keep the reserve at the target range.

MOTION: Council Member Kniss moved, seconded by Vice Mayor DuBois to recommend the City Council:

A. Adopt a Resolution approving:

- i. The Fiscal Year (FY) 2021 Water Utility Financial Plan;
- ii. Up to a \$3 million transfer from the Operations Reserve to the CIP Reserve in FY 2020;
- iii. Up to a \$5 million transfer from the Operations Reserve to the Rate Stabilization Reserve in FY 2020;
- iv. Up to an \$8 million capital program contribution from the Operations Reserve to the CIP Reserve in FY 2021;
- v. Amendments to the Water Utility Reserves Management Practices relating to the CIP Reserve (as set forth in the Financial Plan, with a redline provided by Staff);
- vi. Approve the maintenance of a balance in the Rate Stabilization Reserve through FY 2028 in order to provide greater rate stabilization to customers.

Council Member Kniss emphasized that Staff needed to explore the discrepancy between the City's rates, Redwood City, and Hayward City.

Vice Mayor DuBois wanted to know if Staff had looked at usage-based fees with higher rates for excessive water usages.

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Mr. Batchelor answered that Staff had not reviewed that suggestion but Staff could explore it in the future.

Vice Mayor DuBois wanted to move to a system that used the rates to forward policies and behavior that the City wanted to encourage.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER to add to the Motion to direct Staff to provide details as to why Palo Alto's rates are higher than cities (New Part B.)

Council Member Kniss questioned if the Committee wanted to encourage future Finance Committee Members to look at a tiered charge for buyers.

Chair Tanaka answered that it was complex and was concerned about the effect it would have on commercial businesses.

Vice Mayor DuBois clarified that it would be for residential only and that the Committee was requesting that it be looked at by Staff for the next cycle.

Chair Tanaka predicted that construction costs would drop, that rates should not be raised due to COVID-19, and he wanted to know what the possibility was to get a bond to fund projects.

Mr. Batchelor announced that Staff was already exploring bonds for gas, water, and wastewater infrastructure projects.

Chair Tanaka questioned if the Utilities Advisory Commission (UAC) had been able to review the City's rates.

Mr. Batchelor confirmed that Staff had met with the UAC to discuss rates.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER to add to the Motion Part B, "with the same supplier at next year's Finance Committee."

MOTION: Council Member Kniss moved, seconded by Vice Mayor DuBois to recommend the City Council:

- A. Adopt a Resolution approving:
 - i. The Fiscal Year (FY) 2021 Water Utility Financial Plan;
 - ii. Up to a \$3 million transfer from the Operations Reserve to the CIP Reserve in FY 2020;

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- iii. Up to a \$5 million transfer from the Operations Reserve to the Rate Stabilization Reserve in FY 2020;
 - iv. Up to an \$8 million capital program contribution from the Operations Reserve to the CIP Reserve in FY 2021;
 - v. Amendments to the Water Utility Reserves Management Practices relating to the CIP Reserve (as set forth in the Financial Plan, with a redline provided by Staff);
 - vi. Approve the maintenance of a balance in the Rate Stabilization Reserve through FY 2028 in order to provide greater rate stabilization to customers; and
- B. Direct Staff to provide details as to why Palo Alto's rates are higher than cities with the same supplier at next year's Finance Committee

MOTION PASSED: 3-0

3. Staff Recommends the Finance Committee Recommend the City Council Make no Changes to Wastewater Rates for Fiscal Year (FY) 2021 Beginning July 1, 2020.

Dean Batchelor, Director of Utilities introduced Lisa Bilir who made a presentation to the Finance Committee (Committee).

Lisa Bilir, Senior Resource Planner confirmed that Staff was not proposing any rate increase for Fiscal Year (FY) 2021. Future projections for the next 4 years would be an annual increase of 5 percent. She clarified that rate assumptions did not include the Corona Virus Disease (COVID-19) impacts.

Council Member Kniss was concerned about the 5 percent annual increase projected for the next 4 years.

Ms. Bilir continued to state that there were five partners in the Regional Water Quality Control plant; Stanford, City of East Palo Alto, City of Los Altos Hills, City of Los Altos, and the City of Mountain View. Palo Alto managed the collection system and the Regional Water Quality Control Plant.

Chair Tanaka questioned if the rates that are set for the City applied to the other partners.

Ms. Bilir answered that it is just for Palo Alto. She explained that the Waste Water Utility was on a 2-year cycle for main replacement with a large project envisioned in the year 2022. In terms of a resident's bill, the City was 26 percent lower than surrounding cities. For commercial rates, the City was 14

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percent higher than surrounding cities but 2 percent lower for restaurants. She clarified that the 5 percent annual increase in the next 4 years is due to capital cost increases on the treatment side as well as the increases on the collection side of the utility.

Vice Mayor DuBois was concerned about the Wastewater Operations Reserve getting low in future years. He wanted to know why the other partners were charged more than the City.

Chair Tanaka explained that it was because the commercial rate was a lot higher than the City's residential rate.

Ms. Bilir answered that even when the Wastewater Operations Reserve drops to its lowest point in 2024, there were funds available in the Capital Improvement Project (CIP) Reserve.

Vice Mayor DuBois asked if Staff's recommendation of no rate increase was post COVID-19 or pre-COVID-19.

Ms. Bilir confirmed that Staff had planned to propose an increase but because of COVID-19, Staff wanted to focus on the Cost of Service Study.

Jon Abendschein, Director of Utilities Water Management added that Staff felt it was better to delay the Cost of Service Study. Once the study is completed, Staff may bring forward a recommendation for a rate increase.

Phil Bobel, Assistant Director of Environmental Services answered that in terms of bill comparison, the City of Mountain View had spent a lot of money realigning their sewer lines, and the City of Los Altos Hills had always had higher rates.

Vice Mayor DuBois questioned if the City is receiving a benefit for running the plant.

Mr. Bobel said there was a benefit of having a larger plant.

Chair Tanaka confirmed that the plant sat on Palo Alto owned land.

Mr. Bobel concurred that was correct.

Chair Tanaka asked if rent was charged to the other partners.

Mr. Bobel explained that five decades ago the land value was substantially lower and the partners paid the City their portion of that land value.

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Chair Tanaka inquired if the Utilities Advisory Commission (UAC) had reviewed the proposed no rate change.

Ms. Bilir confirmed they had and they were supportive of a zero percent rate increase.

Chair Tanaka questioned what would happen if the City could no longer transfer Utility Funds to the General Fund.

Kiely Nose, Chief Financial Officer and Director of Administrative Services stated that was not a topic that was agendized and no discussion could take place.

Chair Tanaka wanted to know how Staff figured out how much money should be invested in infrastructure.

Ms. Bilir disclosed that it was based on the budget information for the Financial Plans.

Mr. Abendschein clarified that Staff did periodic studies that looked at potential growth and continuous condition assessments of the system. He proposed that engineering come to a future meeting to discuss the methodology used to assess the rate of replacement for each of the utilities.

Chair Tanaka believed that was a good idea to have engineering come speak to the Committee. He predicted that funds could be moved between reserves and the utilities easily.

Ms. Nose emphasized that there was no fungibility between the utilities.

MOTION: Council Member Kniss moved, seconded by Vice Mayor DuBois to recommend the City Council make no changes to Wastewater rates for Fiscal Year (FY) 2021 beginning July 1, 2020.

Council Member Kniss disclosed that she is pleased to see a no rate increase.

MOTION PASSED: 3-0

Chair Tanaka agreed with Council Member Kniss.

Future Meetings and Agendas

Chair Tanaka asked the other Finance Committee Members if they had any suggestions for future meeting topics.

Vice Mayor DuBois stated he wanted to get through the budget first.

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Council Member Kniss agreed.

Kiely Nose, Chief Financial Officer and Director of Administrative Services announced that there was no pension item scheduled for the meeting in May of 2020. Retiree Healthcare was the topic for the May 2020 meeting.

Vice Mayor DuBois asked if the pension item was going to City Council.

Ms. Nose confirmed that was correct.

Adjournment: The meeting was adjourned at 8:40 P.M.