



FINANCE COMMITTEE SUMMARY MINUTES

Special Meeting
April 19, 2022

The Finance Committee of the City of Palo Alto met on this date in virtual teleconference at 5:32 P.M.

Present: DuBois (Chair)

Participating Virtually: Filseth, Kou

Absent:

Oral Communications

NONE

Agenda Items

1. Utilities Advisory Commission and Staff Recommendation That the Finance Committee Recommend the City Council Adopt a Resolution Approving the FY 2023 Wastewater Collection Utility Financial Plan Including Proposed Reserve Transfers and Increasing Wastewater Rates by Amending Rate Schedules S-1 (Residential Wastewater Collection and Disposal), S-2 (Commercial Wastewater Collection and Disposal), S-6 (Restaurant Wastewater Collection and Disposal) and S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger).

Lisa Bilir, Acting Senior Resource Manager highlighted the proposed FY 2023 Wastewater Collection Utility Financial Plan projects a 3% overall revenue increase. Staff requests transfers of \$5.22 million from the CIP Reserve to the Operations Reserve in FY 2022, and \$1 million from Operations Reserve to Rate Stabilization Reserve FY 2025 – FY 2026 to prepare for increasing treatment debt service costs in FY 2027. Wastewater Utility is experiencing reductions in revenue of approximately \$1 million associated with COVID-19.

Public Comment: **NONE**

Council Member Filseth asked how no change to the reserve would impact rate changes.

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Ms. Bilir explained that the rate would be the same. The movement in and out of the reserve is intended to stabilize the balance in the operation reserve to improve the presentation and information for decision-making.

Vice Mayor Kou asked how Santa Clara, Los Altos, and Hayward cities are maintaining low Wastewater median monthly residential rates.

Ms. Bilir advised that Mountain View and Los Altos have the same treatment plant as Palo Alto (City). Menlo Park and Redwood City have a treatment plant with more recent upgrades. Los Altos funds its CIP through reserves. Hayward is part of a larger JPA and have some economies of scale.

Vice Mayor Kou asked how the City can maintain a consistent comparison city average above 28%.

Ms. Bilir stated that the City would remain below the residential comparison city average with the increases being proposed. In terms of non-residential, commercial rates are 7% higher for Palo Alto.

Chair DuBois inquired regarding the transfer being used to pay for capital projects.

Ms. Bilir answered yes. Reserve guidelines require Council approval to transfer funds from one reserve to another. Staff is seeking proper Council approval to use CIP Reserve funds for CIP projects. Operations and capital are funded through the Operations Reserve.

Chair DuBois inquired about the proportion of operating expenses attributed to labor costs versus other operational expenses.

Ms. Bilir indicated that the primary driver is labor costs. The 5% per year is a component of the costs.

MOTION: Council Member Filseth moved, seconded by Chair DuBois to recommend the City Council adopt a resolution approving:

- a. The Fiscal Year 2023 Wastewater Collection Financial Plan, including 3% overall revenue increase; and
- b. Transfer amount of up to \$5.33 million from the Capital Improvement Projects Reserve to the Operations Reserve in FY 2022; and
- c. Increase Wastewater Collection Utility Rates Via the Amendment of Wastewater Collection and Disposal Rate Schedules S-1 (Residential), S-2 (Commercial), S-6 (Restaurant) and S-7 (Industrial Discharger).

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MOTION PASSED: 3-0

2. Utilities Advisory Commission and Staff Recommendation That the Finance Committee Recommend the City Council Adopt a Resolution Approving the Fiscal Year 2023 Water Utility Financial Plan, Including Proposed Reserve Transfers, and Increasing Water Rates by Amending Rate Schedules W-1 (General Residential Water Service), W-2 (Water Service From Fire Hydrants), W-3 (Fire Service Connections), W-4 (Residential Master-Metered and General Non-Residential Water Service), and W-7 (Non-Residential Irrigation Water Service).

Lisa Bilir, Acting Senior Resource Manager advised staff is recommending a distribution increase of 4% for distribution system upgrade expenditures. San Francisco Public Utilities Commission provided notice of a rate increase by 15.9% to the City. Palo Alto customers will receive notification of the pass-through charge no less than thirty days prior to the increase. The net total effect for City customers is a 9% overall Water Utility increase. The Operations Reserve for the Water Utility is at the maximum level. Additional funds above the maximum are considered unassigned and will be used to pay for all utility operation and capital needs. San Francisco has requested system-wide reductions of 10% due to drought and debt service costs. Future rate projections indicate an increase of 4% annually for FY 2024-2026, and no increase in FY 2027 for the distribution rate. Use of CIP Reserve and Rate Stabilization Reserve to mitigate increases are included in the water rate proposal.

Public Comment: **NONE**

Vice Mayor Kou asked how a customer can determine their meter size.

Silvia Santos stated that if a size cannot be found on the meter, customers may call, and staff will assist with determining the correct size.

Vice Mayor Kou remarked that knowledge on the meter size would help determine the rate and type of increase.

Dean Batchelor, Director of Utilities explained that the meter size is stamped on the meter body. Commercial and small businesses have larger meters.

Vice Mayor Kou noted that water supply cost is the cost of water delivered to Palo Alto, and the cost of operating is the system of pipes, pumps, and reservoirs. She inquired regarding the difference between the two.

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Ms. Bilir explained that the cost paid by the City to San Francisco for water provided versus the cost that once the City receives the water, it goes through the distribution system to be maintained.

Chair DuBois asked if some of the reserves could be used to smooth out the rate increases.

Ms. Bilir answered yes. The rate increase on the distribution side could also be postponed for one or two years; however, the distribution rate increase would become larger.

Mr. Batchelor expressed concern about what the San Francisco Public Utilities Commission (SFPUC) may decide and whether the rate will increase to 25%.

Council Member Filseth asked about the second scenario model regarding drought.

Ms. Bilir indicated 20% rationing in FY 2023, recovery year in FY 2024, and a return to normal in FY 2025. A difference of approximately 1% was shown for the City's distribution rate increase, but SFPUC's proposed increases may result in more significant rate increases.

Chair DuBois asked whether the upgrades could be sourced from Water reserves or if they must come from Wastewater funds.

Ms. Bilir believed that may depend on the cost-of-service study results.

Assistant City Manager Kiely Nose indicated an answer was not available but will be considered by staff.

MOTION: Chair DuBois moved, seconded by Council Member Filseth to recommend the City Council adopt a resolution approving:

- a. Fiscal Year (FY) 2023 Water Utility Financial Plan; and
- b. Up to a \$13.964 million transfer from the Capital Improvement Projects Reserve to the Operations Reserve in FY 2022; and
- c. Increases to Water Utility Rates Via the Amendment of Rate Schedules W-1, W-2, W-3, W-4, and W-7.

MOTION PASSED: 3-0

3. The Utilities Advisory Commission and Staff Request that the Finance committee Recommend City Council Adopt a Resolution Approving the Fiscal Year 2023 Gas Utility Financial Plan, Including Proposed Transfers,

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and Increasing Gas Rates by Amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service)

Eric Keniston, Utilities Rates Manager reported the FY 2023 gas rate proposal includes a 4% increase for FY 2023 with no cost reductions and estimates a continued sales decline of 10% through 2022. The City is projected to see 4% increases each year for FY 2024 through FY 2026. Gas market prices are historically high. Gas Operating Reserves are near the target level with the rate increase projection. Staff and the Utilities Advisory Commission (UAC) request that the Finance Committee recommend that City Council adopt a resolution approving a 6% distribution rate increase to Gas Utilities Rates.

Public Comment: **NONE**

Chair DuBois asked why there is an increase to the undergrounding cost.

Eric Keniston advised that less contracting companies are willing to do the work. The demand is high, and companies can be picky about the work they choose. Bids for projects remain high and supply chain complications make obtaining materials more difficult.

Council Member Filseth inquired about why Gas Operations Costs grew much quicker from FY 2018-2023 than from FY 2023-2027.

Mr. Keniston responded that the Gas Cross Bore Project is included in the Gas Operations Costs.

Vice Mayor Kou asked about the Cross Bore Project.

Mr. Keniston explained that an underground boring device is used when new gas services are being installed. Sewer lines are being investigated for gas cross bores.

MOTION: Council Member Filseth moved, seconded by Council Member DuBois to recommend the City Council adopt a resolution approving:

- a. Approving the fiscal year (FY) 2023 Gas Utility Financial Plan; and
- b. Transferring up to \$3 million from the Operations Reserve to the CIP Reserve in FY 2022; and
- c. Transferring up to \$2.766 million from the Rate Stabilization Reserve to the Operations Reserve in FY 2022; and

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- d. Increasing gas rates by amending Rate Schedules G-1 (Residential Gas Service), G-2(Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service).

MOTION PASSED: 3-0

4. The Utilities Advisory Commission and Staff Recommend the City Council Adopt a Resolution Approving the Fiscal Year 2023 Electric Financial Plan and Proposed Reserve Transfers, Amending the Electric Utility Reserve Management Practices, and Amending Rate Schedules E-1 (Residential Electric Service), E-2 (Residential Master-Metered and Small Non-Residential Electric Service), E-2-G (Residential Master-Metered and Small Non-Residential Green Power Electric Service), E-4 (Medium Non-Residential Electric Service), E-4-G (Medium Non-Residential Green Power Electric Service), E-4 TOU (Medium Non-Residential Time of Use Electric Service), E 7 (Large Non-Residential Electric Service), E-7-G (Large Non-Residential Green Power Electric Service), E-7 TOU (Large Non-Residential Time of Use Electric Service), E-14 (Street Lights), E-NSE (Net Metering Net Surplus Electricity Compensation), and E-EEC (Export Electricity Compensation)

Eric Keniston, Utilities Rates Manager shared that an overall increase of 5 to 8% is proposed for FY 2023. Lower revenues from rates and interest income are expected, including higher purchase costs and contract line crew costs. Reserve margins are minimal, and a combination of reserve withdrawals, cost reductions, or rate increases will be necessary. Staff anticipates pulling almost all funds of the Hydro Stabilization Reserve to help cover the higher purchase costs. Additional funding from the Special Projects Reserve may be needed. Distribution Operating Reserve levels are projected to remain at target levels.

Public Comment: **NONE**

Eric Keniston advised that payments are anticipated to begin in FY 2025.

Chair DuBois asked if the City is continuing to see a decrease in electricity supply.

Mr. Keniston stated that there has been a decrease in the amount of Hydro, and higher costs are due to procurement of user generation.

Council Member Filseth inquired about staff assumptions regarding availability and cost of Hydro in the next five years relative to FY 2022.

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Mr. Keniston explained that very low Hydro generation is expected for FY 2022-2023, and then begin trending back toward normal levels. Increased supply rates would be necessary to make up for additional costs in the case of continued poor Hydro conditions.

Council Member Filseth asked what will happen to the 6% per year if the next year returns to normal water supply levels, and alternatively, what occurs if conditions remain equally dry.

Mr. Keniston indicated that continued dry conditions may lead to 7 to 8%. If conditions improve, it is possible that rate increases could be reduced. Hydro can have a swing of \$10 to \$15 million in portfolio.

Chair DuBois inquired regarding the likeliness of reaching the S/CAP goal by FY 2030.

Dean Batchelor, Director of Utilities believed it would be difficult.

Chair DuBois asked about the City's longer-term plan.

Mr. Batchelor explained that wind coming out of north-west, and more solar coming out of the south are being considered.

Council Member Filseth inquired about a scenario of returning to brown power.

Mr. Batchelor stated that staff has not considered it, but some of the solar suppliers have storage.

Vice Mayor Kou asked why customer sales are declining.

Mr. Keniston remarked that efficiency is causing the decline for all sectors.

Vice Mayor Kou asked when the Hydro contract expires.

Mr. Keniston answered FY 2025-2026.

Council Member Filseth inquired about electricity from a project without storage being cheaper than a project with storage.

Mr. Batchelor answered yes.

Vice Mayor Kou asked if the next step is that rates go to Council on the consent calendar.

Mr. Keniston answered no, rates are not a consent item. Water and Wastewater have the opportunity for protest.

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MOTION: Chair DuBois moved, seconded by Council Member Filseth to recommend the City Council adopt a Resolution:

1. Approving the Fiscal Year (FY) 2023 Electric Financial Plan;
2. Amending the Electric Fund Reserve Management Practices, specifically amending Section 6: Electric Special Projects Reserve, as follows:
 - a. Amend part e) setting the goal to commit ESP funds by the end of FY 2025; and
 - b. Amend part f) setting the date to revert uncommitted funds to the Electric Supply Operations Reserve to five years after the commitment date (FY 2023)
3. Approving the following transfers at the end of FY 2022:
 - a. Up to \$15 million from the Hydro Stabilization Reserve to the Supply Operations Reserve;
 - b. Up to \$5 million from the Electric Special Projects (ESP) reserve to the Supply Operations Reserve; and
 - c. As discussed in Staff Report #11556i, approve an allocation of Cap and Trade funds up to 1/3 of REC revenue to the Cap and Trade Program Reserve to be spent on local decarbonization programs;
4. Approving the following rate actions for FY 2023:
 - a. An increase to retail electric rates E-1 (Residential Electric Service), E-2 (Small Non-Residential Electric Service), E-4 (Medium Non-Residential Electric Service), E-4 TOU (Medium Non-Residential Time of Use Electric Service), E-7 (Large Non-Residential Electric Service), E-7 TOU (Large Non-Residential Time of Use Electric Service) and E-14 (Street Lights) of 5% effective July 1, 2022;
 - b. An update to the Export Electricity Compensation (E-EEC-1) rate to reflect current projections of avoided cost, effective July 1, 2022;
 - c. An update to the Net Surplus Electricity Compensation (E-NSE-1) rate to reflect current projections of avoided cost, effective July 1, 2022; and

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- d. An update to the Palo Alto Green program pass-through premium charge on the Residential Master-Metered and Small Non-Residential Green Power Electric Service (E-2-G), the Medium Non-Residential Green Power Electric Service (E-4-G), and the Large Non-Residential Green Power Electric Service (E-7-G) rate schedules (Linked Document) to reflect current costs, effective July 1, 2022.

MOTION PASSED: 3-0

Future Meetings and Agendas

Assistant City Manager Kiely Nose advised that the next Finance Committee meeting is scheduled for May 3rd regarding the storm water fees and rates, and fee study. The immediate next week will include budget meetings scheduled for May 10th and May 11th. Pending additional fee study statuses, an additional meeting is scheduled for May 17th.

Adjournment: The meeting was adjourned at 6:53 P.M.