



# FINANCE COMMITTEE SUMMARY MINUTES

Special Meeting  
November 15, 2022

The Finance Committee of the City of Palo Alto met on this date in the Community Meeting Room and by virtual teleconference at 5:30 P.M.

Present In-Person: Burt, Filseth, Kou

Absent: DuBois (Chair)

Mayor Patrick Burt was a substitute for Council Member Tom DuBois

## Agenda Items

Item #2 will be deferred as a result of Staff needing to update the recommendations based on current market conditions.

1. Approval of a Construction Contract With Anderson Pacific Engineering Construction (APEC) in the Total Amount of \$161,846,500; Approval of Three Amendments to Existing Agreements with: 1) Stanford University, 2) East Palo Alto Sanitary District, and 3) Mountain View and Los Altos; Approval of Amendment #2 to Contract Number C19171565 with Brown & Caldwell to Add Services, to Increase Compensation by \$1,484,689 for a New Maximum Compensation Not-to-Exceed \$5,908,791, and to Extend the Contract Term through March 31, 2028; Approval of Amendment #2 to Contract Number C21176592C with Carollo Engineers to Add Construction Management Services, to Increase Compensation by \$8,237,021; approval of a resolution to increase Clean Water State Revolving Fund financing to \$193,000,000; approval of a budget appropriation increasing revenue and expenses; and approval of an exception to Debt Policy 1-65 for the Secondary Treatment Upgrades Project (WQ-19001) at the Regional Water Quality Control Plant.

Water Quality Control Plant Manager James Allen stated the key drivers to the Secondary Treatment Upgrades Project are aging infrastructure and nitrogen contributions in the Bay that promote algae growth. Upgrades that would be performed at the plant were described. The 5-year construction project

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would begin in early 2023. The first loan payment would be in November 2028. Anderson Pacific Engineering came in with the lowest bid. Brown & Caldwell is the designer. Carollo Engineers provided the best construction management solution and had the lowest price. The breakdown of total project costs was outlined. Partner agency loan shares were broken down with Mountain View being the second largest share after Palo Alto. Budget appropriation would increase the Adopted Capital Budget from \$149.2M to \$193M. The loan interest rate is at a fixed 0.8 percent. There is a debt limit of 15 percent of annual expenditure unless an exception is approved by Council. An exception is being requested for the Wastewater Treatment Enterprise Fund. Plant Manager Allen outlined the justification for the exception request.

Carrie Del Boccio of Woodard & Curran spoke about cash flow during construction. When the City gets billed by the contractor, the city processes it and sends that invoice to the State for review of compliance with the program and then the State mails a paper check to the City for the amount of the disbursement request. Processing time for disbursements can be 3 to 6 months. Options to mitigate the cash flow issue are timely submissions, borrowing between internal funds, and bridge financing options from the City's bank. These actions will be discussed as needed at future meetings.

Mayor Burt invited members of the public to comment. No one requested to speak.

Council Member Eric Filseth asked if customers would see an increase in their bills. The Utilities group will come to the Finance committee on the 29<sup>th</sup> and talk about rates.

Vice Mayor Lydia Kou asked what the projected debt limit would be. It was estimated to be 30 percent depending on the actual operating budget in 2029.

Mayor Burt encouraged Staff to give the presentation to Council in advance.

Mayor Burt asked if the partners would participate in the cash flow obligation. If there are expenses when borrowing from a bank, the partners would pay their share of that. Mayor Burt asked if raising rates sooner would mitigate the need for bridge loans. Staff could not say why they would not want to do that. It could be discussed with Utilities.

Mayor Burt asked how Palo Alto wastewater rates compared to neighboring jurisdictions with regional water quality plants. A graph with data from October 2020 showed Palo Alto in the \$40 to \$50 range and Sunnyvale just

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over \$50 per month. San Mateo County is much higher in general with consumers paying \$100 a month.

Mayor Burt asked how partner agency loan shares were calculated. This was determined by each partner's desired flow capacity through the plant. This is a reserve capacity. Operating costs are based on year-to-year flows. Mayor Burt wanted to see flow trends over the years in commercial and residential settings. Mayor Burt expressed concern they have not looked carefully enough at the proportion of capital shares. He voiced concern that Mountain View was not paying their equitable share. Staff said there was plenty of capacity in the treatment plant for the flow but pollutants were a limiting factor.

Mayor Burt asked if the low-carbon concrete standard was being incorporated into the bids. Public Works Director Brad Eggleston stated the design predated the City concrete standards that take effect January 1, 2024, for projects with permit applications submitted after that date. Mayor Burt said a change order may be needed.

Mayor Burt asked what is different about the new system that improves quality of discharge and if there would be improvements outside of nutrient improvements. The denitrogenation process adds alkalinity back into the water which reduces the need for supplemental chemicals. Reduced operating costs is a benefit. More oxygen sensors, 28 from 4, result in a more controlled oxygen profile through the tanks and prevent overaerating. Energy use will be reduced 9 percent. Improved settling will improve water quality in the Bay.

Mayor Burt asked if having 5 more acres would make the project more efficient to accomplish. Director Eggleston said any extra space would be helpful. Plant Manager Allen said a credit could be negotiated with the contractor.

Vice Mayor Kou asked if they would want to periodically reevaluate the flow share allocation for the sewage treatment plant to make sure everyone is paying their fair share. A determination of needed capacity would also be appropriate including future capacity needs.

Vice Mayor Kou asked if there was confidence in the lower-carbon concrete. No concerns have been heard about the strength of that concrete. The Reach code pairs the strength needed for the application with the amount of cement in the concrete. The question of the cost of using this concrete came up during the bid. The existing aeration tanks are being rehabilitated, so new concrete tanks will not be poured. There will be new concrete piles, foundations, walls, and beams inside tanks.

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**MOTION:** Council Member Filseth moved, seconded by Mayor Burt to recommend the City Council:

1. Approve and authorize the City Manager or their designee to execute the construction contract (Contract) with Anderson Pacific Engineering Construction, Inc. (APEC), in the amount of \$161,846,500 for the Secondary Treatment Upgrades (STU) project, funded in Wastewater Treatment Enterprise Fund Capital Improvement Program (CIP) project WQ-19001, at the Regional Water Quality Control Plant;
2. Authorize the City Manager or their designee to execute one or more change orders to the contract with APEC for related, additional but unforeseen work that may develop during the project, the total value of which shall not exceed \$16,184,650 or 10% of the contract amount, for a total not-to-exceed amount of \$178,031,150;
3. Approve Amendment No. 8 to the agreement between Palo Alto and Stanford University (Attachment A); Addendum No. 1 to the Agreement between Palo Alto and the East Palo Alto Sanitary District (Attachment B); and Addendum No. 11 to the agreement among Palo Alto, Mountain View, and Los Altos (Attachment C);
4. Approve and authorize the City Manager or their designee to execute Amendment No. 2 to Contract No. C19171565 with Brown and Caldwell (BC) (Attachment D) to increase the contract amount by \$1,484,689 to provide design engineering services beyond the original scope of the contract for the design of the STU Project (CIP WQ-19001), and to extend the term through March 31, 2028. The revised total contract amount is not to exceed \$5,908,791 including \$5,371,628 for basic services and \$537,163 for additional services;
5. Approve and authorize the City Manager or their designee to execute Amendment No. 2 to Contract No. C21176592C with Carollo Engineers (Attachment E) to increase the contract amount by \$8,237,021 to provide construction management and inspection services during construction for the STU Project (CIP WQ-19001). The revised total contract amount is not to exceed \$8,841,268 including \$8,037,516 for basic services and \$803,752 for additional services;
6. Approve a resolution amending Resolution 9945 (Attachment F) to increase the reasonably expected maximum principal amount of funding to \$193,000,000 for design and construction of the Secondary Treatment Upgrades (CIP WQ-19001) and authorizing reimbursement of such funding from the Clean Water State Revolving Fund (SRF);

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7. Approve an amendment to the FY 2023 Budget Appropriation for the Wastewater Treatment Fund (requires a 2/3 majority vote) by:
  - a. Increasing revenue from Other Agencies estimate from a State Revolving Fund Loan by \$44,200,400
  - b. Increasing the Secondary Treatment Upgrades capital project (WQ-19001) appropriation by \$44,200,400; and
8. Authorize an exception to City Policy and Procedures Debt Policy 1-65 Guideline V.A.6 to allow the Wastewater Treatment Enterprise Fund to use a debt limit exceeding 15 percent of annual Wastewater Treatment Enterprise Fund operating expenses.

**MOTION PASSED: 3-0**

2. Staff and the Utility Advisory Commission Recommend that the Finance Committee Recommend the City Council Adopt a Resolution Amending the EHRA (Electric Hydro Rate Adjuster) Rate Schedule, Increasing the Current EHRA Rate to \$0.026/kwWh Effective January 1, 2023

**NO ACTION TAKEN: Item continued to the November 29, 2022 Finance Committee Meeting**

Adjournment: The meeting was adjourned at 6:38 P.M.