

Special Meeting
March 31, 2009

The Finance Committee of the City of Palo Alto met on this date in the Council Chambers at 7:04 p.m.

Present: Burt (Chair), Council Member Klein, Morton, Council Member Yeh

Absent: None

1. Oral Communications

None

2. Recommendation to City Council for adoption of Green Building Program Review Fee

City Manager, James Keene recommended the Finance Committee adopt a Green Program Review Fee.

Interim Deputy City Manager, Steve Emslie gave the Staff's report and recommendations to the Committee on the adoption of the Green Program Review Fee which would substantially recover costs. An analysis was done and the proposal appeared in Staff's report for recovery of most of Staff costs, which have been indicated with outreach and education included. Several alternative plans were also submitted for consideration which included no fee imposition and reduction of the fee for the design and construction portions of the fee and indirect costs of monitoring, education and outreach activities. The latter would reduce the fee by half. The third recommendation remained to adopt the flat \$225 fee which equaled the current construction and demolition (C&D) fee charged currently.

Council Member Klein stated the average citizen, who was building might experience a double-pay if paying the consultant and also paying the City. He asked how it was possible to monitor for these duplicities.

Mr. Emslie stated the resident in pursuit of the project required some expertise in the area of sustainability in order to comply. The role of the City was different in terms of verification and compliance with the Building Codes. He stated this was analogous to an engineer paying his fees concurrent with the City also being paid for verification and compliance.

Associate Planner, Kristin Heinen stated this was not seen as a duplicate fee. Fees included were basically for program operation. None of the items in fee were duplicated by the Green Point rater.

Council Member Klein stated he did not say it was a complete overlap, but expressed concern over areas that may overlap. He asked why it was not the resident applicant's responsibility to ensure that the Green Point rater's credentials were accurate and whether they received the right number of points.

Ms. Heinen stated that the minimum point requirements differ by project type and that applicants do not always understand the City's requirements, and frequently complete the paperwork incorrectly. Checking credentials makes sure the raters have gone through the appropriate green building training. She stated it also aided in checking the rater's work. She stated if the City waited until after construction to verify compliance, the building would be already built, making it difficult to go back and make changes. Mistakes made prior to building permit issuance can end in a request for plan or specification changes, whereas mistakes found after construction could result in fines.

Council Member Klein asked for clarification of the education, promotion and outreach category. He stated this did not necessarily relate to a particular applicant.

Ms. Heinen stated it was 50/50 with some of it being direct education and outreach with specific applicants during planning entitlements and the building permit process, and some being indirect outreach and education, such as tours of successful City projects that were not necessarily tied to the individual application but provided benefit to the applicant in the end.

Tom Wagner, 914 Matadero Court spoke about his work as a Green Point rater and also consulted on the drafting of the Green Building Ordinance, development and implementation protocols. He stated fees regarding residential projects were excessive and redundant and sent the wrong message to the community about the cost of Green Building.

Vice Mayor Morton stated if the intention was ensuring that the requirements in the Green Building Ordinance were implemented, the equivalent of a Green inspector was necessary. He was not convinced that there was duplication, but more of a case of parallel checking as indicated by Staff.

MOTION: Vice Mayor Morton moved, seconded by XXX, that the Finance Committee recommend to the City Council adoption of Green Building Program Review Fee for implementation of the green building ordinance and programs.

MOTION FAILED FOR LACK OF A SECOND

Council Member Yeh asked how other jurisdictions have worked to develop costs for covering their green programs.

Mr. Emslie stated there were not many jurisdictions which had a program similar to the City's program and offered little to go on for comparisons.

Ms. Heinen stated that Palo Alto was one of the few cities with such a stringent program. She stated it was mandatory to the point that all projects had to comply which made the City unique. Cities in similar situations were just beginning to move on implementation of their ordinances. Two cities, Santa Rosa and San Jose, adopted a plan similar to Palo Alto and have currently internalized the costs through their General Funds without proposed fees to cover them.

Council Member Yeh asked what the total amount of revenue was expected from the impact of this fee.

Mr. Emslie stated the Staff's recommendations were cost recovery in nature. If this was not charged, then the reverse charge returned to the development center.

Ms. Heinen stated there was a conservative figure of \$85,000. However, this was based on applications received from the prior two years, and with the economic downturn it was difficult to estimate.

Council Member Yeh stated it was helpful to seek full cost recovery and this was balanced out by the City's desire to have green construction. He stated the numbers for new construction has gone down in the City which decreased the total anticipated revenue prior to market recovery. He questioned whether there were ways to incentivize new building projects so applicants would not see the costs associated with green building as an additional burden.

MOTION: Council Member Klein moved, seconded by Council Member Yeh to adopt Alternative Number 2 to; 1) Reduce the fee for single-family residential to cover only the design and construction review (but not administrative, education and monitoring and provide the applicant with an option for additional services; 2) Commercial and multi-family would remain as proposed in the plan; and 3) If adopted, Staff would reduce duplicative work accordingly.

Council Member Yeh asked Staff if it was possible to go item-by-item to compare which items were actually raters doing work in oversight rather than duplicative service.

Mr. Emslie stated the raters' work was in verification in that the raters looked at the same information to verify it has been done correctly, not unlike what was done with other Building Permit plans.

Council Member Yeh stated he supported the first Amendment to the Motion given these items were related to structural integrity and accomplishment of the goals of the Green Building Ordinance. He asked, however, for consideration for removal of the second Amendment to the Motion.

Council Member Klein stated this was worded as direction to Staff to look for ways to avoid duplicative efforts on the rater's part.

Council Member Yeh stated Staff appeared to be in approval of this being more of a direction in the second Amendment as opposed to the second Amendment to the Motion being present.

Mr. Emslie stated if this was a direction to look at removing any duplicative work, they would certainly take a look at any items on that list that were viewed as duplicative. He stated verification work was still part of the cost recovery.

Mr. Keene asked if the Motion with Amendments passes, how they would move forward. He understood the intent of the Motion as basically saying that the fees were essentially reduced by half in order to cover design and construction. He stated any other items, administration, education, etc. was minimized but also had a clear price schedule. He suggested building a schedule that had the components priced out explicitly.

Chair Burt asked given the number of changes coming forward, whether the revisions should return at the next Finance Committee meeting prior to moving to Council for decision.

Mr. Keene stated it can be done in either way. However, since this was the imposition of a new fee, it required a public hearing prior to moving to Council and would not automatically go on the Consent Calendar.

Administrative Services Director, Lalo Perez stated the item was tentatively scheduled for the April 6, 2009 meeting.

Vice Mayor Morton asked if the Motion with Amendments was still for fee recovery with an element involved of optional services that the client or applicant chose.

Council Member Klein stated it was regarding the second alternative with two additional provisions: 1) The applicant had the option for additional services; 2) Staff was directed to look at reducing duplicative services.

Vice Mayor Morton stated the end goal was still cost recovery.

Chair Burt stated the Motion stood as stated and not as interpreted by others. He felt the Motion was clear as is.

Mr. Emslie stated they understood the need for reduction of duplicative services. He wanted to make sure that any activities that were solely for verification or enforcement were not optional. Any additional services, such as consultations, were among the menu items.

Council Member Burt said his interpretation of the Motion was to adopt alternative number 2 which was approximately 50 percent fee recovery with the option provided to applicants for additional services at cost recovery and for Staff to explore opportunities to remove duplicative services.

MOTION PASSED: 4-0

3. Recommendation to City Council to Change the Methodology Used to Calculate the Equity Transfer from Utilities Funds to the General Fund.

Budget Manager, Sharon Bozman gave a presentation on the updates and changes recommended to the Utility Equity Transfer to the General Fund. She stated the Equity Transfers from the Utility Funds to the General Fund had been in place for decades and was a common practice for municipally-owned utilities and was a good practice for period review. She gave a history of the Equity Transfers thus far to the present.

Council Member Klein asked if there was data for the methodology of amounts transferred by Santa Clara and Alameda, for example.

Ms. Bozman stated there were no specifics on how much they transferred. However, not every city uses the same methodology.

Council Member Klein asked if Santa Clara's amounts were readily obtainable.

Utilities Director, Valerie Fong stated Alameda transferred a set dollar amount. She stated Alameda's Public Utilities Board can override this methodology and typically does every year. Prior to the last year, Alameda transferred \$2.5 million from their electric utility. Santa Clara numbers were available.

Council Member Klein asked about the use of the 30 percent tax rate, and asked where this came from, since there were higher and lower rates in the area.

Ms. Bozman stated it was the consultant, RW Beck's, recommendation for the tax percentage tax adjustment, and she would look for more specifics if so desired.

Council Member Klein said he recognized this was their recommendation, but he wished to understand the logic behind this decision.

Chair Burt asked how they presently stood with gas and electric utility rates versus Pacific Gas & Electric's rates (PG&E).

Senior Resource Planner, Ipek Connolly stated the comparison was dependent on the time period as PG&E rates changed on a monthly basis while the City's utility rates were constant throughout the year. In the last comparison, for an average residential customer, Palo Alto's gas rates were 24 percent higher for the period ending in February 2009. However, electric rates for Palo Alto were 23 percent lower.

Chair Burt asked for the average rate payer, how this compared to PG&E.

Ms. Connolly stated she would do the calculations and get back to him on this question.

Council Member Klein stated the City's electrical rates were almost twice what the gas sales were.

Chair Burt asked when there was a return on investment when the City owns the utility, there was a 6.3 percent proposed return on that investment compared to a commercial entity's figure of 11.35 percent. He asked who bore the ultimate liability risk incurred by the utility.

Administrative Services Director, Lalo Perez gave the example of the General Fund stepping in to assist with the Storm Drain Fund. He stated, in a worse case scenario, where there were no revenues in reserve, then it was assumed that the City had the obligation to step in.

Chair Burt asked about the rate of returns and discounts and tax adjustments and about the second multiplier of 0.85 for risk adjustment. He asked for clarification on this rate of return since it was lower than a commercial utility.

Ms. Bozman stated the risk involved, for an investor in a commercial utility, was higher for default and bankruptcy. She stressed the City did not receive quite as large of a rate on return of investment, since they were stable and steady. It was felt that a discount for the risk factor was then justified.

Mr. Perez stated the consultant talked about this in terms of the difference between a tax exempt bond and a taxable bond.

Chair Burt stated a municipality with a rating such as Palo Alto had a lower risk, and as a result of this lower risk, deserved less return because the return was based on risk.

Mr. Perez stated this was a correct explanation.

Council Member Yeh asked for clarification on the 5 percent collar.

Ms. Fong stated the City Attorney was opposed to a floor and not necessarily a cap on transfers to the General Fund.

Council Member Yeh asked if there were other reasons why Staff did not support the 5 percent collar.

Mr. Keene stated the idea was to band items in order for a straight line gradual improvement with potentially less volatility.

Ms. Fong added the City had fairly predictable Capital Improvements in the infrastructure which swung things a bit. She stated a 5 percent ceiling and/or floor was not as critical as what was looked at in investments going forward, with the City's fairly predictable investment scale.

Council Member Yeh stated the years 2011 and 2012 had a notated jump. He asked for clarification on why the gas fund dipped and then rises, on page 10 of the slide presentation and page 7 on the report.

Ms. Bozman stated the Utility Department had deferred some gas projects into the year 2011.

Council Member Yeh stated this was accounted for in the 2012 projections in order to explain the 5.3 jump.

Dexter Dawes, 350 Santa Rita Avenue, Utilities Advisory Commission (UAC) member stated that he was not representing the Utility Advisory Commission, but that he appeared as a private citizen. He would not be speaking on behalf of the UAC unless appointed to do so.

Chair Burt stated when the Planning Commission and the Architectural Review Board was before the City Council they routinely had representatives rotated in representation of the Commission. He asked if the UAC does this in practice.

Mr. Dawes stated they do not. They make an appearance when interesting, complex or contentious items arose.

Chair Burt stated the Planning Commission routinely appointed a representative, but if this was during a month with no Planning and/or Transportation issues, then the person was not present.

Mr. Dawes stated they would attempt to agendize this. He commented on the UAC's position. He stated there was confusion about the percentage numbers for PG&E and that these numbers were of quite different purposes, with the PG&E numbers as a calculation for computation of electrical rates which then flows through to aggregate profits and then partially to dividends to the shareholders, cash flow, debt service and working capital and expenditures. What was currently being looked at was, in effect, a dividend rate and quite different from the purpose of the calculation for PG&E, which was mostly for rate purposes. He commented on Item 4, the removal of debt funded assets. He gathered that Staff concurred with this approach. He stated this appeared as an inappropriate way of accounting. He stated the most contentious item was the collar, which at the time, they had no position from the City Attorney on the illegalities of the floor. He stated he was unsure why a floor was illegal, but hoped it was addressed. There were comments made, as well, about the City being stressed by their budget with a look at the Utilities as a way to ease that problem.

Council Member Klein stated by his calculations, what the UAC proposed resulted in a reduction of transfers.

Mr. Dawes stated this was only by virtue by the fact that the one goes to zero, which was the elephant in the room. There was no actual prior discussion of this.

Council Member Klein stated the results still lent to a \$2 million dollar swing, which was \$2 million over \$13 million, and roughly a 15 percent reduction.

Mr. Dawes stated this was correct.

Council Member Klein asked what Mr. Dawes' feeling was on the 3 percent rule which has been in effect for ten years. He stated his bias was that this seemed to have been a very blunt instrument.

Mr. Dawes stated that it was blunt but that it does work.

Robert Moss, 4010 Orme Street offered some historical perspective on the issues, going back more than 20 years.

Herb Borock, PO Box 632 stated he had provided copies of the Utility transfers compiled by the Palo Alto Weekly from City staff. He stated any attempts to rectify these Utility transfers were not in keeping with the City's Charter. He stressed that large entities, such as Stanford Hospital, were among those who received benefit from these transfers whereas the average resident does not. He stated any efforts to change the methodology have resulted in a shift of the tax burden. He stressed Staff needed to understand a typical City resident's bill versus the typical commercial bill and how much of that was equity transfer.

Ms. Connolly stated that the comparisons yielded very different results depending on what time period, customer class, usage level etc. came into play. She stated the presentation in their report on gas and electric rates looked at the average residential Palo Alto customer versus an average PG&E customer. The combined bill for Palo Alto came to \$179 with the combined for PG&E at \$180 dollars. These figures were prior to the proposed rate changes.

Council Member Klein stated he was not ready to vote, and wished for further responses to the questions that had been asked. He stressed the difficulties of the issue. He agreed with Bob Moss, in looking back at the past years' perspectives. He stated he held concern over the 3 percent

increase per year which was not impressive. He felt this was an awkward instrument and needed replacement with consideration to how the City had done things in the past, and/or a new, more thoughtful approach based on the rate of return on the investment. He stressed many different formulas existed and he was unsure which was correct at this time. He stated Staff's base formula, which used the six factors on page 6 of the report, the \$4 million figure was a reasonable base. He also held concern about what the multiplier should be as indicated by his earlier question with regard to the 30 percent tax figure's origin. He asked for justification for the 15 percent differential on the rate of return differentials. He was also troubled by the 5 percent collar which seemed to be artificial.

MOTION: Vice Mayor Morton moved, seconded by Council Member Yeh that the Finance Committee recommend to the City Council to Change the Methodology Used to Calculate the Equity Transfer from Utilities Funds to the General Fund.

Council Member Yeh was comfortable moving forward. He thanked Staff for the hard work involved.

Chair Burt asked Staff for further insight on Council Member Klein's questions.

Mr. Keene stated provision of these answers in any great detail required a return to the Committee with very detailed answers and information.

Chair Burt stated that if additional information showed that PG&E's tax rate was lower than what was projected for the City, then the transfer to the General Fund, per the formula would actually go up. He stated if this was the case, than any changes to that formula, might include a look at something which had the same net outcome anticipated in the transfer dollars, so that formula changes would not necessarily result in dollar amount changes. He also discussed the community's concern over increased rates. Concerns also had arisen among customers on lower and/or fixed incomes during times where rate increases occurred.

Ms. Fong stated Staff currently had plans to return to the Utility Advisory Commission and the Finance Committee to talk about rate policies including a look at further tiers and other changes for the following fiscal year.

Vice Mayor Morton wished to be clear on this as a formula point of view versus a set number point of view. He supported, in principle, the City Manager's request to move forward with adoption of a formula with further adjustments based on additional information provided by Staff.

Council Member Yeh was supportive of the Motion unless Staff thought this would come back with changes in numbers which required a return to the Finance Committee as opposed to moving on to Council.

Mr. Keene stated based on current requests, the recommendation was for Staff's return to the Finance Committee. He stated there was value in the Committee indicating a basic direction and focus to move things along prior to their return to the Finance Committee.

Mr. Perez stated the opportunities afforded to them at this point were to return to the Finance Committee (Tuesday, May 12, 2009) with direction from the Committee at this current point. Staff would return with this additional information at the May Finance Committee meeting in continuation of the process. He stated action could be taken tonight pending approval of any additional specifics with a return during the upcoming May meeting.

Council Member Klein stated there were several instances where assumptions were made that salary and fringe benefit costs were holding steady. He asked if this meant a flat rate, or were normal step increases taken into consideration for seniority, for example.

Mr. Perez stated the long-range financial forecast included salaries for those under contract, and this was only for Safety personnel. The proposed budget for the next fiscal year was still under formulation. He stated the Utility Staff, has included a potential three percent adjustment. He stated any differences beyond that three percent came from the reserves, but there was this embedded three percent adjustment.

Council Member Klein thought the assumption was for a zero percent adjustment.

Mr. Perez apologized for any confusion in this adjustment amount. He stated the long-range financial forecast, prepared for the General Fund, had no increase with regard to the Utilities included a three percent salary and benefit increase assumption.

Mr. Keene stated as he understood it, this was in there for purposes of calculating and identifying rate costs, but this does not translate into what will be the ultimate recommendations or adoptions to the budget for fiscal year 2010 or 2011, by example, since these could be at a zero increase. He stated this was attached to Mr. Perez's point with regard to channeling the

Finance Committee discussions toward the ultimate decisions in equity transfer and rates as part of the larger budget picture.

Council Member Klein stated, despite any estimates on how much work this required, that he would like to see a tweaking of these numbers to show both no increase and a potential for a five percent decrease.

Ms. Fong stated those numbers were given in that if an assumption was made with regard to a three percent salary increase, for electric this equaled approximately \$800,000 and would not necessarily change the rate proposal. This was money slated for recharging the reserves.

Chair Burt stated the reserves were proposed at below the end of the normal range. If the increases in salaries came in below the three percent placeholder, then this replenished the reduction in accordance with the Staff's report at this time.

Council Member Klein stated this was a possibility. However, if a million dollars in salary and benefits were knocked out, this justified a 1 or 2 percent reduction in rates as well. He was uncomfortable with the idea that there was wording implying an increase of 3 percent.

Mr. Keene stated Staff was happy to also bring back information, the coefficients and the numbers which corresponded to zero pay increases, a negative 5 percent pay increase and also the translations of this into the various rate schedules.

Chair Burt requested clarification on the Motion. He asked whether the Motion was to adopt or support the formula including the multipliers noted in staff report (CMR:190:09, noted at the top of page 6). He stated in the event that the formula changed, would it affect the amount transferred to the General Fund.

Vice Mayor Morton stated the Motion was to adopt the methodology in principle which was subject to additional adjustment to factors based upon Staff returning with information which indicated to the Finance Committee that an adjustment to those factors were appropriate.

Chair Burt asked whether the Committee was supportive of any adjustments that amounted to an increase in the amount of transfer into the General Fund.

Vice Mayor Morton stated the City Attorney made it clear that a focus on the transfer number resulted in giving up the formula approach. The City

Attorney viewed this result as problematic since it indicated a degree of unpredictability. He did not wish to support any definite number and steered from this due to what he understood to be the concern over the necessity for a rational or basic formula. The calculation then, remained whatever it was by that formula.

SUBSTITUTE MOTION: Council Member Klein moved, seconded by Chair Burt to not use a formula approach but rather a net transfer amount.

Vice Mayor Morton went on record to report that the Committee had spent two hours on the above issues. He noted he would leave at 10:00 p.m.

SUBSTITUTE MOTION FAILED: 2-2 Morton, Yeh No

Chair Burt stated they were back to the original Motion to support in concept the Staff's formulas and methodology with a return at May 12, 2009, for Staff's information on the rationale for these formulae.

Mr. Keene stressed the Committee was not forced to make any decision at this point in time, other than the direction towards endorsement of the basic methodology with further information pending.

Chair Burt stated he was not opposed to the basic concept of the methodology. He was uncomfortable with the inability to look at both the methodology and the net transfer in one bundle.

MOTION PASSED: 3-1 Burt no

4. Utilities Advisory Commission Recommendation to Change Guidelines for the Electric, Gas, Water and Wastewater Collection Emergency Plant Replacement Reserves and the Electric Distribution, Gas Distribution, Gas Supply, Water, and Wastewater Collection Rate Stabilization Reserves

Assistant Director of Utilities for Resource Management, Jane Ratchye stated the above-noted item was reviewed by the Utilities Advisory Committee (UAC). She agreed with the UAC's recommendations and the proposed clarification in the electric, gas, water, and wastewater collection emergency plant replacement reserves. She stated Staff also proposed small modifications to some of the rate stabilization reserves which in all cases lowered the minimum guideline to a level more consistent with the annual risk assessment for these reserves.

Vice Mayor Morton was surprised that the electrical reserves used a liability number as a minimum in the new guideline, on page 2 of the report.

Ms. Ratchye stated what he referred to was the emergency plant replacement reserves for electric, gas, water and wastewater collection. She stressed the existing guideline was not entirely clear. The liability insurance coverage existed.

MOTION: Council Member Klein moved, seconded by Vice Mayor Morton, that the Finance Committee approve Staff recommendation to the City Council to Change Guidelines for the Electric, Gas, Water and Wastewater Collection Emergency Plant Replacement Reserves and the Electric Distribution, Gas Distribution, Gas Supply, Water, and Wastewater Collection Rate Stabilization Reserves

MOTION PASSED: 4-0

5. Recommendation to City Council on Proposed Changes to the Electric Fund's Calaveras Reserve Guidelines.

Assistant Director of Utilities for Resource Management, Jane Ratchye gave a presentation which revealed their objectives in adoption of the new guidelines for the Calaveras Reserve which the Utilities Advisory Commission had agreed upon. She went over the existing guidelines as a reminder in covering Council's directives in management of the Calaveras Reserve. She went over the proposed changes to the guidelines for the reserve and what those changes meant with regard to transfers from the Calaveras Reserve into the Electric Fund for fiscal year 2010. The next steps were also discussed.

Council Member Klein asked what result would occur if the Calaveras Reserve went above cost.

Ms. Ratchye stated the stranded costs, then, would be at zero. This was the expected outcome. In a normal hydro year, the Calaveras Project was expected to be in the money and would not have the stranded costs, but this was also contingent on market prices.

Council Member Klein asked if there was a number available on the Calaveras Project's profitability.

Ms. Ratchye stated she could not provide the number immediately but that it was dependent on the generation at Calaveras. The long-term assumed average generations were available, but in short-term calculations in a

budget year, the assumption were based on what was known about Calaveras generations in prior years. In this event, an assumption was made that this was a dry hydro year with the assumption of generation at a lower average.

Council Member Klein asked for calculations over the next five years, in consideration of more wet winters.

Ms. Ratchye stated it was expected, then, that the stranded costs for Calaveras Reserve were zero with no transfer.

Council Member Klein asked what was done with the leftover revenue.

Ms. Ratchye stated it accumulates interest and was to be used for proposed projects.

Council Member Klein asked if there were \$16.5 million in proposed projects.

Ms. Ratchye stated, in the long-term, yes, this covered a number of projects equaled to that amount.

Vice Mayor Morton stated he was worried over a reversal where the stranded costs went the other direction.

Ms. Ratchye stated there was a possibility for a fluctuation in stranded costs and reserves where the stranded costs landed above what was remaining in the Calaveras Fund. In the event that there were not enough funds to cover the projected stranded costs, this was not a giant issue unless and until direct access for utilities customers was reintroduced.

Vice Mayor Morton stated this would be built into a future rate structure in order for cost recovery. He stated there was not a rationale to have a minimum for that reserve over the next five or ten years.

Ms. Ratchye agreed. She did not recommend such a rationale.

Vice Mayor Morton stated this pertained only to annual calculations.

Council Member Yeh asked about the excess funds. He asked if there were parameters in place to address the level of risk in these excesses.

Ms. Fong suspected Staff would not suggest any huge projects upfront. In many senses, what would be suggested were either smaller projects, pile-up

projects, or if there was a favorable economic project, they would do this regardless of the Calaveras Fund.

MOTION: Vice Mayor Morton moved, seconded by Council Member Yeh, that the Finance Committee recommend to the City Council the Proposed Changes to the Electric Fund's Calaveras Reserve Guidelines.

MOTION PASSED 4-0.

6. Adoption of a Resolution Adopting a Refuse Rate Increase and Amending Utility Rate Schedules R-1, R-2 and R-3.

Public Works Director, Glenn Roberts gave a presentation on the Staff's recommendation for the 17 percent in the Refuse rates and approval of the new customer rate schedule, which also embodied prior Council directives with creation of the incentive for the Mini Can Rate. He went over the prior Council directives dated back 2004 in development of the Zero Waste Program and its cost implications. He went over the highlights of the GreenWaste agreement and their significance. He discussed the potential impacts of the Smart Station.

Chair Burt asked if GreenWaste was handling the recycling center drop-offs.

Mr. Roberts stated the Palo Alto Sanitation Company (PASCO) handled this until the contract terminates at the point that Green Waste takes over.

Chair Burt asked if GreenWaste's handling of the recycling included the same material currently being collected.

Mr. Roberts stated yes. He reminded the Committee that the City has been in transition with the recycling center due to its location and the availability of the site in contrast to parkland issues. He stressed this resulted in a scaling back in the interim recycling operations whereby some materials were eliminated. A master plan was being worked on to restore those items in the long-term.

Chair Burt stated an interest in hearing when those materials would be restored. He also noted, when the City's footprint size was reduced by reducing the size of the drop-off center, the City retained the recycling of materials that can already be recycled at curbside, with the elimination of recycling of materials that cannot be curbside recycled. He recognized curbside recycling values were higher than that of milk cartons, Styrofoam and other objects that could not be recycled elsewhere.

Mr. Roberts stated a combination of factors were involved, part of which included what was added to the new contract, after July 1, 2009, which include the milk cartons and other items. Curbside collections were set to resume on July 1, 2009. Another controversial area was the polystyrene and Styrofoam issue. Several considerations were looked at here as well with the consideration of the fact that there was no market for this type of materials. A great many of these collections end up ultimately being land-filled. It was also an operational problem since these items break into small chunks of debris which littered the recycling center and the face of the landfill operational area. Also, the upcoming ban on this latter item in restaurant usage was pending.

Chair Burt asked if it were true that plastic bags were no longer accepted at the drop-off.

Mr. Roberts stated this was correct. Again, the consideration over these plastic bags was due to the ban's initiation and that many stores offer the drop-off centers and collection for these bags.

Chair Burt stated, since this was a budgetary item, he did not wish to pursue it further, but it did merit further discovery.

Herb Borock, PO Box 632, spoke on increased revenues. He stated a previous presentation revealed an increase to the average refuse bill at \$4 a month. In keeping with this, he believed the rental amounts coming from the landfill going into the General Fund in turn had end results to residential refuse bills. His calculations, then, also arrived at approximately \$4 per month for residents. He stated the slide presentation included an item not discussed in the printed items on pages 1 and 2 of the Staff report regarding the \$1.7 million reduction in revenue due to the ban of commercial customers at the landfill. He stated, when he looked at the fact that residential customers were more likely to use the landfill now as opposed to commercial customers, their rates increased beyond the projected \$4 per month. He was also concerned over what the \$1.7 million covered.

Mr. Roberts responded to several of Mr. Borock's comments and questions. He stated the increase in the rate structure had nothing to do with any changes in rent at the landfill which has a flat rate as adopted by previous Council policy. He stated the commercial revenue numbers were based on on-time issues dependent upon future Council policy directions.

Chair Burt asked if this was for the entire year.

Mr. Roberts stated the budget was prepared under the assumption that it was for the entire year.

Council Member Yeh hoped when this comes back as part of the full budget proposal, that it also showed the comparisons with other cities. He felt Palo Alto, by comparison, was not the only jurisdiction with rate increases.

Mr. Roberts suggested fleshing out of the rates in two columns to show the linear changes. He pointed out that Palo Alto's rates included services which the other jurisdictions may not, such as the Zero Waste program and weekly street cleaning.

Chair Burt suggested inclusion of a quantification of the percentage of waste anticipated for recycling as result of the GreenWaste Program versus prior practices and those of surrounding communities.

Mr. Roberts stated the City was previously at the 63 percent level in waste reduction and may be expected to reach the 75 percentage level in the near future.

MOTION: Council Member Klein moved, seconded by Vice Mayor Morton, that the Finance Committee recommends to the City Council Adoption of the Resolution Adopting a Refuse Rate Increase and Amending Utility Rate Schedules R-1, R-2 and R-3

MOTION PASSED 4-0.

7. Recommendation for no Rate Increase to Utility Rate Schedule D-1 (Storm and Surface Water Drainage) for Fiscal Year 2009-10.

MOTION: Council Member Klein moved, seconded by Vice Mayor Morton, that the Finance Committee recommend to the City Council to approve recommendations for no Rate Increase to Utility Rate Schedule D-1 (Storm and Surface Water Drainage) for Fiscal Year 2009-10

MOTION PASSED 4-0.

8. Utilities Advisory Commission Recommendation that Finance Committee Recommend City Council Adoption of a Resolution Adopting a Water Rate Increase and Amending Utilities Rate Schedules W-1, W-4, and W-7

Senior Resource Planner, Ipek Connolly gave a presentation beginning with a summary of the proposed rate adjustments with a 10 percent increase in

electric rates, a 10 percent decrease in natural gas, a five percent increase in water and wastewater collection and 17 percent change in refuse and no changes to storm drain. She went over the impact of these rate adjustments on the average residential customer at about the previously-mentioned \$4 range. She noted the percentage decrease in gas rates compensated for the majority of the rate increases reducing the net impact on the individual residential customers. She went over factors which affect the rates, as well as conservation efforts which have lowered the rates for some customers. She went over the budget and rating process.

Chair Burton stressed the late hour and the number of items left for discussion.

Council Member Yeh asked how the difference in utility rate increases had grown from a previously suggested seven cents per month to the now \$4 per month.

Utilities Director, Valerie Fong stated the seven cents previously reflected, was not tied into the total bill and did not include the refuse or storm drain numbers.

Vice Mayor Morton stressed his worry over water rates increases not being high enough or early enough to deal with increased future costs.

Council Member Klein stated the City was already seeing increased costs for water. He stressed the need for further water conservation efforts. He proposed there be an in-depth study in the future with regard to the water program.

MOTION: Council Member Klein moved, seconded by Vice Mayor Morton, that the Finance Committee recommend to the City Council Adoption of a Resolution Adopting a Water Rate Increase and Amending Utilities Rate Schedules W-1, W-4, and W-7

Vice Mayor Morton requested Staff return with discussion on the conservation program for future water usage.

Council Member Klein asked that be dealt with in a separate cover.

MOTION PASSED 4-0.

9. Utilities Advisory Commission Recommendation that Finance Committee Recommend to the Council to Adopt of a Resolution Adopting a

Wastewater Collection Rate Increase and Amending Utilities Rate Schedules S-1 and S-2

Senior Resource Planner, Ipek Connolly, gave a presentation on waste water collections and billing schedules in comparison to neighboring cities. She stated the costs were comprised of CIP, treatment and operations. A rate increase for waste water collection has not occurred in the last several years, with a 5 percent rate increase proposed for 2010. In consideration of this 5 percent rate increase, it included the ending reserve levels for 2010 right at the middle of the minimum to maximum guidelines. The proposal was made to allocate this as a 5 percent increase across all rate components. Customers, by result, will see a 5 percent rate increase in their monthly bills across all customer classifications.

Council Member Yeh stated that the year 2012 brought with it the projection of a 15 percent increase for that year. He wondered if, by increasing a few percentage points per year, they can prevent a year which might have a double-digit percentage increase when factoring in the projections for the year 2012.

Ms. Connolly suggested Staff's re-evaluation of the actual costs with updated projections for the following year. She stated this would result in keeping the rate increases at a more steady or flat increase.

Chair Burt asked what the reason was for the 2012 projection which included this 15 percent anticipated jump.

Ms. Connolly stated that in order to keep within the minimum and maximum reserves guidelines, recovery of projected cost increases must occur in order to stay above the minimums.

Assistant Director of Utilities/Resource Management, Jane Ratchye added that when the line goes down, costs were not recovered, but reserves were drawn upon. Further pointing to the presentation graph, she notated a place where costs were clearly not recovered in 2010 and 2011, which might result in more than a 5 percent increase in rates to prepare for the projected higher costs of 2012.

Vice Mayor Morton agreed with Council Member Yeh. He suggested doing a six percent or seven percent rate increase this year to offset this future year increases.

Ms. Connolly stated this could be achieved by going higher than five percent starting next year.

Ms. Fong stated these costs were typically more predictable for the wastewater utility as opposed to the other utilities and was more manageable going forward.

Council Member Yeh asked if the hesitancy to raise the percentage this fiscal year was in relationship to the preparations for the new budget.

Ms. Fong stated ultimately Staff was looking at the total bill in an effort to minimize the impact on the total bill.

Council Member Yeh stated if this were to rise to the seven percent or eight percent level of increase, the 15 percent could be brought down to single digits quickly. He asked how a seven percent increase factored out in monthly billing increases.

Ms. Ratchye stated an additional component that supports the five percent increase at this point was that the projections were based on the preliminary numbers which were likely too high for the salary and benefits section. She stated the costs would go down, ultimately, from what was shown in the current Staff report. Costs for 2012 may be lower than what was now projected. Staff was comfortable with the 5 percent rate increase at this time which was well above the minimum guidelines. Staff does not see the justification for a higher rate increase percentage at this point in time.

MOTION: Vice Mayor Morton moved, seconded by Council Member Klein that the Finance Committee recommend to the City Council Adoption of a Resolution Adopting a Wastewater Collection Rate Increase and Amending Utilities Rate Schedules S-1 and S-2.

MOTION PASSED 4-0.

10. Utilities Advisory Commission Recommendation that Finance Committee Recommend Council Adoption of a Resolution Adopting a Gas Rate Decrease and Amending Utilities Rate Schedules G-1, G-2, G-3, G-4, G-6, G-10, G-11, and G-12.

Vice Mayor Morton stressed that rate decreases were positive, and hoped that since members of the press were still on site, and that upcoming reporting would reflect this decrease in gas ratings, holds in other areas and modest increases in other areas.

Senior Resource Planner, Ipek Connolly gave a presentation regarding the decreased rates in the gas fund with \$46 million in revenues for the year

2008. Fifty percent of revenues arise from the business sector, 42 percent from residential and 8 percent from institutions. The usage profiles reflected heavy numbers in the winter and lighter rates in the summer for residential and business utility customers. Rate comparisons with PG&E were discussed. This year's proposal included a 10 percent decrease in rates, largely a result of the reduced market prices and deferral of a CIP program element. Based on these projections, there was the expectation for the rates to go up in the following year. However, with the recent changes in the marketplace, the picture may also change. The 10 percent decrease factors out to \$12.4 million decrease for the gas supply fund and \$2.2 million decrease for the gas distribution fund. No proposed changes were made to fixed monthly charges with the rate decreases applied equally to all customer classes and applicable rate schedules. This resulted in a 10.4 percent rate decrease on the average for residential customers in the winter and a 9.5 percent reduction in the summer with 10.2 for commercial and 10.6 for industrial.

MOTION: Vice Mayor Morton moved, seconded by Council Member Yeh that the Finance Committee recommend to the City Council Adoption of a Resolution Adopting a Gas Rate Decrease and Amending Utilities Rate Schedules G-1, G-2, G-3, G-4, G-6, G-10, G-11, and G-12

MOTION PASSED 4-0.

11. Recommendation that Finance Committee Recommend Council Adoption of a Resolution Adopting an Electric Rate Increase and Amending Utilities Rate Schedules E-1, E-1-G, E-2, E-2-G, E-4, E-4-TOU, E-4-G, E-7, E-7-TOU, E-7-G, E-14, , E-18, and E-18-G.

Senior Resource Planner, Ipek Connolly gave a presentation on the electrical rate increases. She stated the City had enjoyed a fairly steady usage consumption level in all customer classifications predominantly the result of the industrial/commercial sectors having a large share of total usage, as well as the residential sector not having a significant air-conditioning load which tends to result in a steady profile. The situation was favorable with respect to rates in comparison to the neighboring utilities. Santa Clara was the only community with lower rates than Palo Alto. She went over the costs covered by the electric fund as well as the level of revenues and the under-collection that have occurred during the last two years as a result of the continued drought and the need to purchase replacement power. As a result, costs were drawn from the reserves. Going forward, there was still an under-collection with projections showing continued increase, although at a slower rate, for the costs into the future. The proposal was for a 10 percent rate increase for fiscal year 2010. Also proposed was a transfer of \$2.6 million

from the Calaveras Fund for this fiscal year that put the City slightly below the minimum reserve guidelines. Recovery was expected in the future. At the end of a 5-year forecasted horizon, the City landed slightly above the minimum guidelines. She went over the distribution rate stabilization reserve levels which were above the minimum guidelines with a favorable risk assessment.

Council Member Klein asked why given the 15 percent projected increases in the following year, the projected rate increase currently was at the 10 percent level. He asked why the rate increase was not evened out at 12.5 percent per year, for the next two years.

Ms. Ratchye stressed their hope that the cost projects were on the high side which would lower the need for larger rate increases, keeping them in the single digits, outside this particular year where they are at 10. She stated this will bring the reserve levels up beyond the minimum guideline levels. She stressed Council may consider a higher rate increase if so-justified. Staff was comfortable with the current 10 percent proposed rate increase at this time.

Vice Mayor Morton stated, since industrial and commercial users comprise a large portion of the utility customers, why they were not going as high as 12 percent for the current rate increase.

Council Member Yeh asked what potential costs might arise for the City if costs from the irrigation district were not laid off on another partner.

Utilities Director, Valerie Fong stated she was unclear as to the exact amount of these costs. She stated her understanding was that the agreements for all the Northern California Power Association members permitted a two-year notice to leave the Agency, and that the member leaving had an on-going obligation to continue paying on commitments made while they were members of the NCPA.

Council Member Yeh stated that if there were any additional costs projected for the City that it was good to factor this into the current cost projections.

MOTION: Council Member Yeh moved, seconded by Vice Mayor Morton to increase retail electric rates by 12 percent.

Chair Burt asked Staff to comment on their rationale and comfort with the falling below the lower level in their rate reserves for the coming year.

Ms. Fong added that the discussions with the UAC left them with a real concern about the double-digit type increases. She stated this was included in their considerations when they returned from a 14 or 12 percent increase back down to the 10 percent proposal.

Administrative Services Director, Lalo Perez, stated another concern was the current economic conditions. The business community, as a large component in the rate assessment, was also subject to these economic impacts.

Manager Energy Risk for Administrative Services, Karl Van Orsdol, stated there were two components in the risk category: 1) The hydro risk which they cannot control, and 2) The major component of protecting the reserve against credit and market risk factors. He stressed while the 10 percent increase was low and of concern, this was a prudent number on which to move forward.

Chair Burt stated he was not supportive of the Motion given the next year's financial picture in that it was appropriate to try and mitigate these increases as soon and in as much as possible. He was comfortable with the 10 percent increase in keeping with Staff's comfort with this level with all concerns taken into consideration.

Council Member Klein stated the more he thought about the issue, the more he moved in an entirely different direction. He stated he would like to think about it more thoroughly but was coming around to the view that Calaveras required more scrutiny in the issue of stranded costs. He felt better use existed for these funds. He opined that the reserve was actually quite strong and how Calaveras money was used was an important issue. He had also considered a reduction of 1 or 2 percent given the fact that Calaveras is, in his view, not stranded and a more available fund source. The point was to get numbers to a neutral point for the year and expected appreciation of this by the public.

Chair Burt agreed with the concept that Calaveras Fund was an emergency fund. However, he felt that unless more formal action was taken, it was better to utilize some of the Calaveras fund for a reduction in rates and correct the misconception that overall reserve numbers were dangerously low.

Council Member Yeh shared his thoughts on the Calaveras fund and was interested in seeing what Staff brought to the UAC in May with regard to potential expenditures. He felt there was great potential for leverage of these dollars in helping targeted electrical customers in the potential

achievement of long-term energy efficiencies or programs to help reduce individual energy bills. While he appreciated it was great to show the public a zero bottom line, he wanted to make sure this was not at the expense of potentially usage of the Calaveras Reserve for longer-term energy efficiency projects down the line.

Chair Burt agreed that looking at wise long-term investments in energy efficiencies and outreach were important for the bulk of the Calaveras Reserve. He was hopeful that Staff's numbers were not reflective of a big dent in this reserve or its future usage in these important areas. He asked if this final bottom line number was ready at this time.

Ms. Ratchye stated achievement of a zero bottom line, or anything close to that, would require not a 10 percent electric rate increase but perhaps a 4 percent electric increase, and this would mean much lower revenue than current proposal when comparing to actual costs.

MOTION: Vice Mayor Morton moved, seconded by Council Member Klein that the Finance Committee recommend to the City Council Adoption of a Resolution Adopting an Electric Rate Increase and Amending Utilities Rate Schedules E-1, E-1-G, E-2, E-2-G, E-4, E-4-TOU, E-4-G, E-7, E-7-TOU, E-7-G, E-14, , E-18, and E-18-G.

MOTION PASSED: 4-0

12. Utilities Advisory Commission Recommendation that Finance Committee Recommend to Council to Eliminate the Residential Customer Discounts for Water Service, Approve Rate Assistance Program Changes, and Adopt a Resolution Amending the Utilities Rate Schedule C-4 "Residential Rate Assistance Program."

Assistant Director of Utilities for Resource Management, Jane Ratchye and spoke to the reasons behind the above proposal.

MOTION: Council Member Klein moved, seconded by Council Member Yeh that the Finance Committee recommend to the City Council to Eliminate the Residential Customer Discounts for Water Service, Approve Rate Assistance Program Changes, and Adopt a Resolution Amending the Utilities Rate Schedule C-4 "Residential Rate Assistance Program"

MOTION PASSED: 4-0.

13. Discussion for Future Meeting Schedules and Agendas

Mr. Perez stated the next meeting was scheduled for April 21, 2009 with a cancellation of the April 7, 2009 meeting. He discussed the agenda for the next meeting in April. The month of May meetings were with regard to the upcoming budget.

Council Member Yeh suggested inclusion of the Federal Stimulus fund accountability in future budget conversations.

Council Member Klein stated the Energy Efficiency Grant had already been received which does not require an application. Staff needed to figure out how these funds were used and was there a schedule in the works.

Ms. Fong stated these discussions had begun with the program identification filing deadline sometime in June 2009.

ADJOURNMENT: The meeting adjourned at 10:47 p.m.

NOTE: Sense minutes (synopsis) were prepared in accordance with Palo Alto Municipal Code Sections 2.04.180(a) and (b). The City Council and Standing Committee meeting tapes were made solely for the purpose of facilitating the preparation of the minutes of the meetings. City Council and Standing Committee meeting tapes were recycled 90 days from the date of the meeting. The tapes were available for members of the public to listen to during regular office hours.