



FINANCE COMMITTEE FINAL MINUTES

Regular Meeting
May 05, 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:

Oral Communications

Nelly Baumb, Deputy City Clerk announced that there are two public speakers and each speaker had 3 minutes to speak.

Sara Baltierrez stated she is a Project Manager for Downtown Streets Team in Palo Alto.

Chair Tanaka interrupted and requested that Ms. Baltierrez hold her comments until Item Number Two.

Ms. Baumb reported that there were no other public speakers.

Agenda Items

1. Discussion of June 30, 2019 Actuarial Valuation of Palo Alto's Retiree Healthcare Plan and Annual Actuarially Determined Contributions (ADC) for Fiscal Years 2021 and 2022.

Kiely Nose, Chief Financial Officer and Director of Administrative Services explained that the report was done bi-annually, and it studied the Other Post Employment Benefits (OPEB) liabilities, the funding and the status of the plan. She introduced Mary Beth Redding who presented to the Finance Committee (Committee).

Mary Beth Redding, Bartel and Associates explained that the OPEB were the medical benefits that were supplied to employees after they retired. Palo Alto (City) were pre-funding the OPEB since 2008 via the California Employer's Retiree Benefit Trust (CERBT) which was run by California Public Employees Retirement System (CalPERS). The Actuarially Determined Contribution

FINAL MINUTES

(ADC) included the normal cost and the Unfunded Liability (UAL) payments. There were 24 years remaining on the payment schedule for the UAL. The evaluation was done every 2 years.

Chair Tanaka questioned if other cities could access the City's UAL funds.

Ms. Redding replied that no other city could access the funds.

Vice Mayor DuBois reported that the data used was from 2019.

Ms. Redding clarified that the employee data was used from 2019 but there were asset values that were picked up on December 31, 2019.

Chair Tanaka noted that the data did not show the recent drop in the market.

Ms. Redding confirmed that was correct. She continued to state that the number of participants in 2019 receiving benefits was 1,904.

Chair Tanaka wanted to know how the City compared to other cities when it came to retirees that received benefits.

Ms. Redding noted that the City was atypical because most retirees used the benefits after retiring. She continued to report that the Accrued Liability had grown from \$55 million in 2007 to \$159 million in 2019. The growth was associated with more people working for the City. The active Accrued Liability was not growing as quickly.

Council Member Kniss added that the three factors that were being used were growth, the number of retirees and that retirees were living longer. The City also renegotiated the Accrued Liability with Staff.

Ms. Redding confirmed that was correct, but another factor was the increase in the cost of healthcare overtime. All those factors determined Accrued Liability.

Chair Tanaka restated that it would take 24 years before the City was caught up with payments.

Ms. Redding stated that was correct and the City was roughly 50 percent funded which was a great position for the City to be in.

Vice Mayor DuBois asked if CalPERS paid money into the trust.

Ms. Redding clarified that the City paid into the trust which was run by CalPERS.

FINAL MINUTES

Vice Mayor DuBois commented that the City was paying twice for pension but once for OPEB.

Ms. Redding concurred.

Chair Tanaka questioned if CalPERS could touch the funds that were in the trust.

Ms. Redding stated that they could not and that the trust was not subject to bankruptcy.

Council Member Kniss wanted more information about where the City was compared to surrounding cities.

Ms. Redding declared that the average client with Bartel and Associates sat at 24 percent funded for their Accrued Liability. She believed strongly that the City was heading in the right direction.

Chair Tanaka wanted to know what Ms. Redding's guess was as to where the current Accrued Liability was, due to the COVID-19 pandemic.

Ms. Redding shared that there was roughly a 5 to 10 percent drop but every day the percentages changed. She continued to state that the monthly premium for healthcare from CalPERS was the same amount for active employees and retirees who were not yet 65. The actuarial accounting rules had changed in 2013 and actuarial evaluation for retirees was now determined by the true cost of the benefits. That change increased liabilities, which was called Implied Subsidies. Due to the change, the City was overpaying the premium for active employees which eventually evened out.

Council Member Kniss believed that the return on assets was going to be very different due to the downturn of the economy.

Ms. Redding disclosed that it was hard to tell. She reported that asset smoothing was used to calculate the contribution which averaged the returns for the past 5 years.

Vice Mayor DuBois wanted to know what the assets were invested in.

Ms. Redding reported just under 60 percent were invested in global equities, 25 percent in fixed income, and small percentages in other areas. If the City chose to invest money into CERBT, the City was able to choose Option One, Two or Three. Option One was more aggressive and Option Three was more conservative with less equity and more fixed income.

Chair Tanaka questioned which approach the City was currently taking.

FINAL MINUTES

Ms. Redding answered Option One and that was the option most cities chose when the fund is growing. She pointed out that in 2017, liabilities reduced and that was due to a \$23 million gain due to premiums being lower than was expected. Healthcare trend, demographics, and City experience where all assumptions used to form a recommendation to the City in terms of how much to pay.

Chair Tanaka inquired what the life expectancy age Bartel and Associates was using in their assumptions.

Ms. Redding disclosed that actuaries did not use a life expectancy, but it was understood that people were living longer and that was factored in. Back to discount rates, she assumed a 6.75 percent for Option One which resulted in a contribution of \$14.5 million. Staff was proposing the City use a 6.25 percent discount rate which resulted in a contribution of \$15.9 million.

Ms. Nose added that the recommendation from Staff was in alignment with the action that City Council took with the pension which used a normal cost of 6.25 percent discount rate as well as providing funds to the 115 Trust at 6.2 percent.

Chair Tanaka was hesitant to use a 6.25 percent discount rate due to COVID-19 and the downslide of the economy.

Ms. Nose emphasized that this was a long-term investment.

Ms. Redding added that there was plenty of time in the schedule to make up any losses.

Vice Mayor DuBois restated that the recommendation was to continue with Option One but use a 6.25 percent discount rate for normal cost.

Ms. Nose commented that 6.25 percent was for full funding, not just normal cost.

Chair Tanaka asked what the long-term rate of return was for Option One.

Deanna Van Valer, Bartel and Associates reported that she would look it up.

Ms. Redding noted that the rate of return should be higher than 6.25 percent.

Ms. Van Valer commented that CalPERS average over the last 10 years was 5.91 percent for CERBT.

Chair Tanaka was concerned that the rate of return was lower than 6.25 percent and that was during a time when the economy was booming.

FINAL MINUTES

Ms. Van Valer clarified that the data was from March 31, 2020 which included the market drop over the recent quarter.

Ms. Redding concluded that the UAL should be paid off by 2044.

Chair Tanaka questioned if the payoff year was planned for 2044 if it were done 2 years ago when the report was done.

Ms. Redding answered yes.

Council Member Kniss wanted to know what Staff was seeking from the Committee.

Chair Tanaka claimed that Staff recommended that the Committee review the data and recommend that Council accept it.

Vice Mayor DuBois asked what the total of the UAL was.

Ms. Redding declared it was \$214 million as of June 30, 2020 with \$118 million in the fund.

Vice Mayor DuBois believed that the City had software that allowed the City to do its own analysis.

Ms. Nose confirmed that was correct but only for the pension.

Steve Guagliardo, Principal Management Analyst restated that the software was not set up to do OPEB costs.

Vice Mayor DuBois inquired if it was worth looking at the difference between the General Fund and the Safety Plans.

Ms. Redding reported that the Evaluation Report did break down costs by General Fund, Safety Plans and other entities.

Chair Tanaka called for public comment.

Nelly Baumb, Deputy City Clerk announced that there were no public speakers.

Chair Tanaka wanted to know what would happen if the City skipped this year's payment.

Ms. Redding expressed that they would add a year to the schedule or future payments could increase if the same schedule was kept.

Council Member Kniss did not support the idea of not making a payment.

FINAL MINUTES

Ms. Nose reiterated that Staff was recommending a discount rate of 6.25 percent for Fiscal Year 2021 and 2022.

MOTION: Council Member Kniss moved, seconded by Vice Mayor DuBois to recommend the City Council review and accept the June 30, 2019 Actuarial Valuation of Palo Alto's Retiree Healthcare Plan, recommend a 6.25 percent discount rate to be used in the calculation of the Actuarial Determined Contribution (ADC) and approve full funding of the annual ADC for Fiscal Year (FY) 2021 and FY 2022.

MOTION PASSED: 3-0

2. Discussion of Proposed Fiscal Year 2020-21 Community Development Block Grant (CDBG) Funding Allocation; Draft 2020-25 Consolidated Plan; and Draft 2020-21 Annual Action Plan.

Jonathan Lait, Director of Planning and Development Services started by mentioning that two items, a 5 year Consolidated Plan and an Annual Action Plan were required in order to receive funds from the Department of Housing and Urban Development (HUD) for the Community Development Block Grant (CDBG) Program. Staff recommended that the Committee: 1) support the Consolidated Plan; 2) support the Annual Action Plan for Fiscal Year (FY) 2021; 3) recommend that City Council support the selection of the different agencies that would receive funding; and 4) authorize the City Manager to advance documents to move forward. The five goals, which were included in the Consolidated Plan, were affordable housing, homelessness, community services and public improvements, fair housing and economic development. The Annual Plan included \$850,000 of entitlement money to pass along to local agencies but that did not include \$295,000 from the Coronavirus Aid, Relief and Economic Security (CARES) Act. The money was to be spread out among five funding categories; Public Services, Planning and Administration, Economic Development and Housing Rehabilitation and Public Facilities.

Council Member Kniss wanted to know why there was \$213,000 left over from the previous year.

Mr. Lait mentioned that not all the funding was spent in the previous cycle due to one of the agencies not being able to fulfill their requirements.

Chair Tanaka questioned if any of the funding came from the City, whether it was all federal dollars and what the restrictions were.

Mr. Lait articulated that the money could only be used for low-income persons, to prevent or eliminate slums, and address urgent needs. In terms of the

FINAL MINUTES

Public Service category, there was a limit on how much funding could be spent in this category, and Staff was recommending \$85,440 be funded.

Vice Mayor DuBois asked why money was taken from Catholic Charities and moved to Palo Alto Housing.

Mr. Lait reported that the Selection Committee, which was made up of Human Relations Commission (HRC) Members, determined where and how much of the funds should be used per agency.

Chair Tanaka questioned why the full HRC had not weighed in on the Selection Committee's recommendation.

Mr. Lait disclosed that the Shelter-in-Place Order was initiated before the HRC was able to review the proposal.

Chair Tanaka wanted to know if there were any new agencies requesting funding.

Mr. Lait noted that there was one new agency and the City was able to provide funding to them by using the CARES Act Funds. He moved onto Planning and Administration; it was recommended that \$127,480 be spent in this category.

Chair Tanaka inquired how Staff and the HRC monitored non-profits.

Mr. Lait explained that Staff did an annual analysis of the program which outlined how low-income persons were being aided by the program. If the program goals were not met by the agencies, then funding ceased.

Council Member Kniss acknowledged that many of the agencies had a long history of using the funds successfully.

Mr. Lait moved to the Economic Development category. Downtown Streets Team requested that \$100,000 be held out of their \$336,400 allocation for their Food Closet but the Selection Committee and Staff recommended that the \$100,000 be used in a different category.

Chair Tanaka asked for clarification on the accountability of the Downtown Streets Team.

Mr. Lait expressed that the Selection Committee had requested Downtown Streets Team submit three reports: 1) Amy Oppenheimer Report; 2) Pay Equity Report; and 3) a Survey of the current climate.

FINAL MINUTES

Ed Shikada, City Manager declared that the Mayor had discussed the allegations with Downtown Streets Team and determined that funding be approved.

Council Member Kniss was supportive of allocating \$100,000 out of Downtown Town Streets Team's allocations for the Food Closet.

Mr. Lait continued onto the Housing Rehabilitation category. Habitat for Humanity pulled out of the allocation process after having discussions with Staff and the Selection Committee, pre-COVID-19. The remainder, \$546,600, was to be allocated for rent relief assistance, food and COVID-19 testing.

Owen Byrd, Board Chair for Downtown Streets Team. He thanked the City and Staff for their recommendation and emphasized that a full investigation took place to address the concerns that had been reported. The investigation revealed that there were no pay disparities.

Sara Baltierrez, current Project Manager for Downtown Streets Team said since COVID-19 the organization had been holding weekly Zoom meetings with the City. Street shifts were suspended, and the Food Closet program had been expanded to include a food delivery service.

Phillip Da, Director of the Opportunity Center for Life Moves was very grateful for the allocation and planned to use it for rental assistance.

Vice Mayor DuBois asked Mr. Da if existing rental funds were depleted.

Mr. Da confirmed yes.

Council Member Kniss questioned whether the funds were going to the Palo Alto Housing Corporation.

Mr. Da confirmed they were going to Palo Alto Housing Corporation's properties.

Chair Tanaka articulated that there had been reported crime and loitering around the Opportunity Center.

Mr. Da concurred that was an issue and the group creating the problems did not want to receive services from the Opportunity Center. He requested help from the City to remove the encampment from the area.

Mr. Shikada commented that encampments were a problem in all metropolitan areas, but the Council could have a discussion on it.

Chair Tanaka recommended that the Council discuss how the City could help.

FINAL MINUTES

Vice Mayor DuBois questioned why giving MayView funds for COVID testing was a good idea.

Mr. Lait indicated that MayView serviced low-income persons that did not have health insurance.

Erum Maqbool, Specialist for Planning and Development Services added that MayView had a high volume of patrons and they predicted that they would need more funding for testing.

Vice Mayor DuBois wondered if any of the CDBG funds could be used for vehicle dwellers.

Mr. Shikada disclosed that the current focus was to implement the safe parking site.

Vice Mayor DuBois asked when the sites would open.

Mr. Shikada responded that COVID-19 had delayed the program.

Vice Mayor DuBois inquired if CDBG funds could be used for the Safe Parking Program.

Mr. Lait answered no, it could not be used for that type of program.

Vice Mayor DuBois emphasized that now was the time to start case management and registration for vehicle dwellers who were still in the area.

Mr. Lait noted that Staff would provide an update to Council on the Safe Parking Program's progress.

Council Member Kniss questioned which MayView location was asking for funding.

Mr. Lait shared that it was for the East Palo Alto location.

Vice Mayor DuBois thought testing was free under Federal Law and that the provider paid but not the consumer.

Council Member Kniss reported that the consumer was paying.

Mr. Lait responded that it was understood that it was free to clients but carried an expense for the agency.

FINAL MINUTES

Vice Mayor DuBois emphasized that under Federal Law testing was free to all consumers, whether they were able to afford it or not. One major loophole was if a consumer went out of their network.

Council Member Kniss requested more information on the Federal Law and who paid for COVID-19 testing.

Rachael Tanner, Assistant Director Planning & Development Services reported that the MayView clinic in Palo Alto was using prior CDBG funds for renovations.

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

1. Allocate Community Development Block Grant (CDBG) funding as recommended in the draft 2020-2021 Action Plan (Attachment A) and as described in this Report;
2. Authorize the City Manager to execute the Fiscal Year 2020-2021 CDBG application and Fiscal Year 2020-2021 Action Plan for CDBG funds, any other necessary documents concerning the application and to otherwise bind the City with respect to the applications and commitment of funds;
3. Authorize Staff to submit the 2020-2021 Action Plan (Attachment B) to Housing and Urban Development (HUD) by the extended deadline of August 16, 2020; and
4. Authorize Staff to submit the 2020-2025 Consolidated Plan (Attachment B) to HUD by the extended deadline of August 16, 2020.

Council Member Kniss thought this was going to be the first year that the City received money from the CARES Act.

Mr. Lait said that was correct.

Chair Tanaka questioned if the Motion should include that Council discuss the issues around the Opportunity Center.

Mr. Shikada clarified that he was suggesting a discussion on the larger issue of permanent supportive housing for the homeless.

Chair Tanaka wanted to see a discussion regarding the Opportunity Center be included in the Motion.

Vice Mayor DuBois did not support adding that Amendment to the Motion.

FINAL MINUTES

Council Member Kniss did not support that idea and suggested Chair Tanaka discuss it with the City Manager.

Vice Mayor DuBois suggested a Colleague's Memo be the vehicle used to address the Opportunity Center's issue.

MOTION PASSED: 3-0

3. Staff and the Utilities Advisory Commission Request the Finance Committee Recommend the City Council Adopt a Resolution Approving the Fiscal Year 2021 Electric Financial Plan and Reserve Transfers, Amending the Electric Utility Reserve Management Practices, and Increasing Electric Rates by two Percent Overall by Amending the E-1, E-2, E-2-G, E-4, E-4-G, E-4 TOU, E-7, E-7-G, E-7 TOU, E-14, E-NSE and E-EEC Rate Schedules.

Dean Batchelor, Director of Utilities reiterated that on March 3, 2020 Staff presented the Finance Committee (Committee) with the preliminary rate and Financial Plans for Fiscal Year (FY) 2020-2021 for the Electric and Gas Utility. Due to COVID-19, Staff provided an At Places Memo on April 29, 2020 that proposed a zero rate increase for the next 2 years for the Electric and Gas Utilities, as well as a maximum of 5 percent increase for the following 3 years. He introduced Eric Keniston who continued the presentation.

Eric Keniston, Senior Resources Planner restated that there were two options the City could go forward with. Option One was a 2 percent rate increase that was approved by the Utilities Advisory Commission (UAC) on April 15, 2020, or Staff's post-COVID-19 pandemic proposal of a zero percent rate increase for the Electric Utility.

Vice Mayor DuBois remarked that he wanted to review the proposal for a rate increase.

Chair Tanaka was in support of the no rate increase proposal.

Council Member Kniss agreed that rates should not be raised.

Vice Mayor DuBois was concerned about having a 5 percent increase several years in a row if the City moved forward with a zero rate increase for FY 2020-2021. The cost cut proposals went against Palo Alto's environmental programs. He asked Staff to highlight the reasons for the original 2 percent rate increase and then the cost-saving measures that would be in place if the City proposed a zero percent increase.

FINAL MINUTES

Mr. Keniston indicated that the original 2 percent increase was enough of an increase to cover load loss. He articulated that the Electric Reserve was at a stable position currently and under the original 2 percent increase, Staff had planned to use the funding for various programs and reserves. In terms of the zero percent increase: 1) Staff was not going to use any funds for the Capital Improvement Reserve; 2) the City would have a half-million-dollar cut that would need to take place within the next 5-years; and 3) reserves would drop below the minimum. In both options, Staff was to be paying back the loan to the Special Project Reserve.

Vice Mayor DuBois summarized that the UAC had recently reviewed both proposals and they suggested a 2 percent increase.

Mr. Keniston said yes.

Vice Mayor DuBois requested what the UAC's discussion was about.

Mr. Keniston reported that they believed it was prudent to have at least an inflationary rate increase going forward.

Mr. Batchelor added that the UAC did not want to take the risk of having reserves drop below minimum and with the 2 percent increase the reserves stayed stable.

Chair Tanaka called for public comment.

Don Jackson, UAC Commissioner commented, not as a UAC Commissioner. He emphasized that options did exist that could raise major funding for the City annually at the cost of lowering the renewable energy percentage of the Power Content Label. He concluded that existing options provided an opportunity to offset the effects of any near-term revenue shortfalls along with a zero percent rate increase for FY 2020-2021. He requested that Council direct the UAC to review and consider additional resource-based revenue opportunities at the UAC's next meeting.

Chair Tanaka was supportive of the comments made by the public speaker of selling some of the resources that the City had while implementing a zero percent rate increase.

Mr. Jackson restated the UAC and Council should explore all options before deciding.

Council Member Kniss was willing to defer the item until after the next UAC meeting.

FINAL MINUTES

Jonathan Abendschein, Assistant Director of Utilities explained the concept of selling resources was a concept that was explored over the past year. The City achieved carbon neutrality and those resources were at a premium. There was a lot of hesitation in using out of state renewable energy.

Loren Smith remarked that the UAC had voted to sell down their surplus of resources, but the proposal was to sell more resources than was voted on.

MOTION: Chair Tanaka moved, seconded by Council Member Kniss to recommend the City Council approve the Electric Utility Financial Plan with the following conditions:

1. Adopt a zero percent increase effective July 1, 2020;
2. Approve the Fiscal Year (FY) 2021 Electric Utility Financial Plan;
3. Amend the Electric Utility Reserves Management Practices;
4. Approve the following transfers:
 - a. Up to \$5 million from the Supply Operations Reserve to the Electric Special Projects Reserve in FY 2020;
 - b. Up to \$4 million from the Supply Operations Reserve to the Hydro Stabilization Reserve in FY 2020;
 - c. Up to \$7 million from the Distribution Operations Reserve to the CIP Reserve; and
 - d. Transfer \$3.74 million from the Supply Operations Reserve to the LCFS Reserve.

Council Member Kniss remarked that she wanted a summary of the UAC's next meeting after it took place.

Vice Mayor DuBois restated his concerns about why he was voting no on a zero-rate increase.

MOTION PASSED: 2-1 DuBois no

4. Staff and the Utilities Advisory Commission Recommend the Finance Committee Recommend the City Council Adopt a Resolution Approving the Fiscal Year 2021 Gas Utility Financial Plan, Including Proposed Transfers and an Amendment to the Gas Utility Reserve Management Practices, and Increasing Gas Rates by Amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-metered and

FINAL MINUTES

Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service).

Eric Keniston, Senior Resources Planner for Utilities indicated that Staff was proposing a zero percent rate increase while the Utilities Advisory Commission (UAC) proposed a 3 percent rate increase for the Gas Utility followed by 6 percent rate increases for the next 5 years. With the zero percent increase option, reserves were going to fall below the minimum benchmark and the City was going to have to make a one-time payment of \$13.8 million within the next 5 years to bring those reserves back up. With a 3 percent increase for Fiscal Year (FY) 2020-2021 the reserves were going to remain on target.

Vice Mayor DuBois summarized there were big projects that would be cut if the City moved forward with a zero percent rate increase.

Dean Batchelor, Director of Utilities noted that the Area Medium Income (AMI) would have to be scaled back in the Electric Fund with a zero percent rate increase.

Council Member Kniss supported the 3 percent overall rate increase with a 5 percent distribution rate increase.

Vice Mayor DuBois agreed with Council Member Kniss.

MOTION: Council Member Kniss moved, seconded by Vice Mayor DuBois to recommend the City Council agree to a three percent rate increase to the Gas Utility Financial Plan (with a five percent Distribution Rate increase.)

Chair Tanaka was not supportive of a rate increase.

Vice Mayor DuBois specified that reserves were for emergencies and having reserves below the minimum mark was reckless.

Chair Tanaka remarked that COVID-19 was deemed an emergency and it was worth bringing the reserves down to lower the burden on customers.

MOTION PASSED: 2-1 Tanaka no

Future Meetings and Agendas

Vice Mayor DuBois expressed he was interested in starting the meetings at an earlier time in the day.

Council Member Kniss agreed.

Chair Tanaka preferred to keep the start time the same.

FINAL MINUTES

Vice Mayor DuBois suggested starting the meeting at 6:00 P.M.

Ed Shikada, City Manager endorsed a 6:00 P.M. start time or earlier.

Chair Tanaka announced that the meetings would start at 6:00 P.M.

Adjournment: The meeting was adjourned at 9:38 P.M.