



FINANCE COMMITTEE FINAL MINUTES

Regular Meeting
December 1, 2020

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

Present: DuBois, Kniss, Tanaka

Absent:

Oral Communications

None.

Agenda Items

1. Discussion and Recommendation to the City Council to Accept Macias Gini & O'Connell's Audit of the City of Palo Alto's Financial Statements as of June 30, 2020 and the Management Letter.

Kyle O'Rourke, City Auditor reported the Palo Alto (City) Charter required an independent financial audit to be conducted by a public accounting firm on an annual basis. The Charter also required the City Auditor to coordinate the annual external Financial Audit. Staff's recommendation is to review and forward to City Council (Council) for approval of the audit Financial Statements for the most recent year-end and accompanying reports regarding the independent financial audit.

Cynthia Pon, MGO disclosed that the scope of service that MGO provided to the City included the audit report on the Comprehensive Annual Financial Report (CAFR) for the year ended of June 30, 2020, Cable TV Franchise statements of Revenues and Expenses for the years ended of December 1, 2019, and 2018, Palo Alto Improvement Corporation Financial Statements and Regional Water Quality Control Plant Financial Statements for the year ended on June 30, 2020, agreed upon procedures related to Article XIII-B Appropriation Limit for the year ended on June 30, 2020, and single audit reports for the year ended on June 30, 2020. The purpose of the audits was to obtain reasonable assurance that amounts are fairly stated by using generally accepted accounting principles (GAAP), generally accepted auditing standards (GAAS), and Government Auditing Standards (GAGAS). The CAFR audit resulted in an unmodified opinion and included a paragraph that disclosed perimeters regarding the Coronavirus (COVID-19). Unmodified opinions on all the other reports were issued and there was no identified

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material weakness in internal controls over financial reporting. The Single Audit Report has been delayed to a completion date of January 31, 2021, due to pending Federal Government guidance on the Coronavirus Aid, Relief, and Economic Security Act (CARES) Act. The Fiscal Year (FY) 2019-2020 Audit Results have been submitted to Council and included all required communications. The City has been granted a 1-year reprieve regarding new accounting standards that are required to be implemented in FY 2021. The audit did correct a misstatement that was found in the capitalization of Capital Assets.

Vice Mayor DuBois asked how many years Ms. Pon has been doing the annual audit for the City.

Ms. Pon shared that it was her first year, but her company has been conducting the report for over 10 years.

Vice Mayor DuBois wanted to know how many hours were spent doing the audit.

Ms. Pon estimated 1,000 plus hours. With COVID-19 the company has been less efficient in terms of collaboration with Staff.

Vice Mayor DuBois inquired if MGO naturally works with the City's auditors or just the City's Finance Department.

Ms. Pon confirmed that MGO works directly with the Finance Department.

Mr. O'Rourke added that the Auditor's Office oversees the solicitation for the financial audit firm.

Vice Mayor DuBois appreciated that the City's Auditor's Office shares areas of concern with the financial auditors. He wanted to know what misstatement was corrected in the audit.

Ms. Pon articulated that it was roughly \$12 million related to the timing of an over capitalization of Fixed Assets in prior years in the Government Wide Statements.

Chair Tanaka inquired what was the Fixed Asset.

Ms. Pon noted that it had to do with the construction process for infrastructure projects.

Kiely Nose, Chief Financial Officer/Director of Administrative Services added that it did not pertain to one individual project.

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Chair Tanaka asked how many projects were involved.

Ms. Nose disclosed that she did not have that information.

Chair Tanaka summarized that the funds were improperly capitalized instead of being an expense and that the funds would be considered extra expenses on the City's Income Statements.

Ms. Pon clarified that it impacted the overall government wide statements and no governmental funds were impacted. She explained that fixed assets are not a balance sheet item in the General Fund (GF) or the Capital Project Funds or Special Revenue Funds. In conclusion, it was not an overstatement or understatement of an item in the governmental funds. It only impacts the Full Accrual Financial Statement which is a broader perspective financial statement.

Benjamin Lau, MGO confirmed that the correction has always been an expenditure, it will never be a capital asset, and the financial statement is always recorded properly.

Vice Mayor DuBois asked what assets go into the Public Improvement Corp (PIC).

Ms. Nose answered that it has to do with debt issuances.

Vice Mayor DuBois restated that if the City issues a Coronavirus Aid, Relief, and Economic Security Act, that infrastructure project goes into the PIC.

Tarun Narayan, Manager of Treasury, Debt & Investments clarified that the PIC has the leased asset.

Vice Mayor DuBois stated that assets are transferred into the PIC to cover the debt.

Mr. Narayan shared that the asset is for the benefit of the bondholders. If the City fails to make a lease payment, the bondholders can repossess the asset.

Ed Shikada, City Manager added that it is a separate legal entity that allows the City to be very clear about the assets that are being financed in the method by which the City is repaying debt.

Vice Mayor DuBois mentioned that other agencies help fund the Regional Water Quality Control Plant. He asked if the City subdivides its portion to the City of Los Altos Hills, Stanford University, and Environmental Protection Agency (EPA).

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Ms. Nose did not know the legal framework of the agreement.

Vice Mayor DuBois predicted that all the partners involved in the Regional Water Quality Control Plant pay proportionally.

Ms. Nose answered correct.

Council Member Kniss questioned if the lack of a City Auditor had affected the work done by MGO. She predicted that it cost more to do the audit this year due to teleworking.

Vice Mayor DuBois interjected to note that it took fewer hours to complete the audit this year than prior years.

Ms. Pon commented that it is a fixed cost. Not having a City Auditor in the office did impact the planning process in MGO's initial risk assessment.

Mr. O'Rourke added that the fieldwork had already been completed before he started working with the City. He envisioned in future years being more engaged in the process.

Chair Tanaka asked where the counter charge is in the CAFR for the corrected misstatement.

Ms. Pon reported that it would be in the Government Wide Financial Statement.

Mr. Shikada explained that some activities are considered maintenance and not a Capital Asset.

Ms. Pon disclosed that \$12 million was added to the Public Works Department Income Statement.

Mr. Shikada shared that it has happened before where a road maintenance project is wrongly classified.

Chair Tanaka articulated that another purpose for the PIC is to issue debt without voter approval.

Mr. Narayan confirmed that is correct.

Chair Tanaka challenged that the City could issue debt as long as there is no revenue increase.

Mr. Narayan acknowledged that it is complicated process.

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Mr. Shikada did not want the PIC to be characterized as a mechanism to avoid voter approval.

Chair Tanaka noticed that the interest rates for the Annual Report for the PIC were ranging from 2.2 percent to 4.22 percent and 2.5 percent for the Series A and B to 5 percent for the 30-year debt. He disclosed that the 30-year Municipal Bond market yield is only 1.6 percent. He wanted to know why the City is paying a high yield compared to the market rate.

Mr. Narayan responded that the numbers reflect the coupon rate, not the borrowing rate that the City is incurring with the bonds.

Chair Tanaka asked what the equivalent rate for COP is compared to Municipal Bond Rates.

Mr. Narayan remarked that there is no rate until the bond is sold on the market. The internet provided generic information because there are many factors of what the final rate will be.

Ms. Nose emphasized that the bonds were issued before the current rates and the information provided in the Staff Report is based on what the market was at the time the bonds were sold.

Chair Tanaka confirmed that the bonds were sold at a higher rate than the current market rate.

Ms. Nose answered that is correct.

Chair Tanaka asked if the City can refinance the bonds.

Ms. Nose explained that it depends on the structure of the bond, how the debt was issued, and when they're callable or not.

Chair Tanaka advised Staff to explore refinancing a portion of the City's debt.

Mr. Narayan concurred that Staff already does that and Staff regularly monitors the market.

Chair Tanaka noticed that the City of Mountain View is larger than Palo Alto but the City of Mountain View's bill is lower and he wanted to know why.

Vice Mayor DuBois noted that the City pays a much smaller bill than what is reported in the report.

Chair Tanaka inquired why Cable TV revenues were dropping, but expenses were rising.

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Ms. Nose remarked that cable is going down because the market has shifted. Part of the expenses has to do with the relationship between the City and Midpen Peninsula.

Chair Tanaka requested if audit costs for the Regional Water Quality Control Plant and Cable TV are spread across multiple cities or just Palo Alto.

Ms. Nose reported that costs are allocated on the City's finances side but the partner agencies are paying each of their share in those funds.

MOTION: Council Member Kniss moved, seconded by Vice Mayor DuBois to recommend the City Council approve the City of Palo Alto's audited financial statements for the fiscal year ending June 30, 2020 and the accompanying reports provided by Macias Gini & O'Connell LLP.

MOTION PASSED: 3-0

2. Recommendation to the City Council to Approve the Fiscal Year (FY) 2020 Comprehensive Annual Financial Report (CAFR) and FY 2020 Budget Amendments in Various Funds.

Kiely Nose, Chief Financial Officer/Director of Administrative Services announced that the two types of Financial Statements in the Comprehensive Annual Financial Report (CAFR) are the Government Wide Financial Statement and the Fund Financial Statement. The Government Wide Financial Statement covers the governmental activities which are the basic services generally funded by taxes and/or by specific program revenues; as well as business activities which are Palo Alto (City) enterprise activities that are funded in a whole or part by fees charged to external parties. Fund financial statements include Governmental Funds that are modified on an accrual basis of accounting, plus excludes internal service funds. Also, under the Fund Financial Statement is the Propriety Funds which include Internal Funds, or also known as Enterprise Funds, which are also on a full accrual basis.

Vice Mayor DuBois believed that the City operated on a cash basis.

Ms. Nose answered no.

Council Member Kniss asked how the City has a net position increase even with the Coronavirus (COVID-19) Pandemic happening.

Ms. Nose explained the figures do not reflect what cash is on hand. Also, there was a decrease in governmental activities and an increase in business activities. The Government Wide Statement is not how Staff reviews, reports and operates from a financial standpoint.

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Chair Tanaka wanted to know why the City does both the Government Wide Financial Statement and the Fund Financial Statement.

Ms. Nose mentioned that the Fund Financial Statement closely reflects what funds are available to the City.

Cynthia Pon, MGO added that the Government Wide Financial Statements shows the long-term obligations and the Fund Financial Statements shows the pledged revenues for the debt.

Chair Tanaka emphasized it is hard for City Council (Council) and the public to follow both financial books.

Ms. Pon added that with the budget included, all three provide three different perspectives of the agency's financial position.

Rocelyn Fernando, Manager of Finance presented the Government Wide Statement Net Position to the Finance Committee (Committee). The City had a Net Position total of \$1.23 billion. The total \$1.23 billion was broken up into three sections of funds. The net investment in Capital Assets made up \$1.119 billion, \$77.4 million is held in Restricted Funds and \$29.5 million were held in the Unrestricted Funds. The Statement of Activities showed that the City has a Net Position Change for FY 2020 of \$34.1 million compared to FY 2019 and that is due to business-type activity decrease. Moving to Fund Financial Statement highlights, the City ended the year with a positive fund balance. The Governmental Fund balance under the Fund Financial Statement ended with a balance of \$266.7 million, but there was a decrease of \$38.3 million for FY 2019. Within that \$38.3 million, \$13.4 million was associated with the General Fund (GF) and \$25.9 million was associated with the Capital Project Fund which is partially offset by \$1 million from other Governmental Funds. In FY 2020 the GF ended with \$35.9 million in the Budget Stabilization Reserve (BSR). The City's Enterprise Funds ended FY 2020 with a positive change in Net Position.

Council Member Kniss expressed that simple explanations are better and emphasized that Staff needed to make sure to explain that the City does not have a surplus of funds.

Ms. Nose agreed that the City will be in a positive net position, but the City does not have an excess of funds.

Vice Mayor DuBois remarked that comparing the budget actuals against the Fund Financial Statement, the City has a surplus of \$4.7 million.

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Ms. Nose disclosed that the BSR ended at \$35.8 million and the budget estimated that it would be around \$32.7 million. Even with that above level target, the City still fell below the targeted 18.5 percent of the GF expenses.

Vice Mayor DuBois predicted that any surplus that the City has should go into the BSR.

Ms. Nose confirmed that is correct.

Vice Mayor DuBois restated that the City has a surplus of \$4.7 million.

Ms. Nose answered there is an outstanding liability, the Education Revenue Augmentation Fund (ERAF), that has not been addressed and the \$4.7 million surplus will be used for the outstanding liability.

Chair Tanaka inquired why the City has the ERAF.

Ms. Nose explained that ERAF is revenue that is passed to the City from Santa Clara County, but the methodology that is used to distribute those funds was under dispute by the State of California. For this reason, the City has set aside funds to cover a potential decrease.

Council Member Kniss disclosed that ERAF has been around for many years and is very complicated.

Tarun Narayan, Manager of Treasury, Debt & Investments clarified that the ERAF was not taken away. The State of California took more ERAF than was needed and that excess is then returned to the Cities.

Ms. Fernando returned to the presentation. There was a substantial decrease in the Documentary Transfer Tax, Utility Users Tax (UUT), and Transient Occupancy Tax (TOT) and Property Tax from \$132.8 million in FY 2019 to \$107.2 million in FY 2021 Adopted Budget. For Actual Expenses, FY 2020 ended with \$195.8 million, but the FY 2021 Budget shows a decrease to \$175.5 million. The Capital Project Fund ended with an end balance of \$83,631 million with \$60,704 million being assigned to other Capital Projects.

Vice Mayor DuBois asked if the \$5.1 million for the Roth Building included Transfer Development Rights (TDR).

Ms. Nose commented that it was primarily TDRs as well as a surplus that came from the GF from a prior year.

Vice Mayor DuBois questioned what the Cubberley Community Center expenditure is.

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Ms. Nose explained that the funds are being transferred to the Cubberley Infrastructure Fund which is a Capital Project Fund.

Council Member Kniss inquired why \$12.9 million was funded for the California Avenue Parking Garage.

Ms. Nose noted that the figures reflect amounts from June 30, 2020, so the figures are not up to date.

Ms. Fernando continued that the Enterprise Funds ended in a positive net position except for the Refuse Fund which ended in a negative \$3.1 million. The decrease is due to COVID-19 impacts on commercial and industrial uses as well as reimbursement from the new waste collection vehicles. The Electric Fund had a total net position of \$289.2 million but out of the \$289.2 million, \$200.5 million was invested in Capital Assets.

Ms. Nose added that the Capital Assets in the Electric Fund were used for infrastructure that delivers the services. The surplus in the Electric Fund will be used for rate stabilization for hydroelectric and capital improvements.

Chair Tanaka wanted to know why the City cannot reduce the contract with Green Waste if the commercial businesses are cutting back their services.

Ms. Nose commented that operating expenses did not change, but there was a big infrastructure purchase that was made for electric waste vehicles. Staff continues to adjust operations based on need, but there are fixed costs associated with the delivery of specific services. She shared that in addition to the CAFR, Staff is bringing forward year-end budget adjustments to align the appropriation levels of FY 2020 with actuals. Major adjustments included net-zero realignments in the GF between departments to ensure actuals remain within appropriated levels at the department level. Also, Capital Projects adjusted for actual revenue and expenditures to maintain overall Council approved total project budgets.

Vice Mayor DuBois asked if any recommended budget adjustments need to be highlighted.

Ms. Nose reported that TOT estimates were adjusted. Workers Compensation was also adjusted to accommodate increases.

Vice Mayor DuBois inquired if COVID-19 building improvements will be incorporated in any of the reports.

Ms. Nose shared that funding for building improvements was included in the FY 2021 Adopted Budget which was roughly \$300,000.

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Vice Mayor DuBois opined that \$300,000 is too low.

Ms. Nose predicted that more funds may be needed in FY 2021.

Vice Mayor DuBois asked about the City's Federal Agencies' debt and what the City's policy is in terms of additional debt.

Ms. Nose indicated that the Council annually reviews the Investment Strategy.

Vice Mayor DuBois rephrased if the City has hit a limit in specific investments in a category.

Mr. Narayan shared that 20-years ago 93 percent of the City's portfolio invested in Federal Agencies. Over the years the City has brought that percentage down to roughly 46 percent which was considered a comfortable percentage.

Vice Mayor DuBois asked if the City continues to try to lower the percentage.

Mr. Narayan commented that Staff plans to bring to Council a strategy to increase the Municipal Bonds to 40 percent which will result in a lower percent of federal agency debt. All Municipal Bonds are Double-A or better rated.

Vice Mayor DuBois mentioned that the City has \$112 million in long term debt for Government Activities and \$74 million in Utility long-term debt. He asked if those figures are comparing debt to assets and how leveraged was the City.

Ms. Nose responded that the City does have a 10 to 15 percent limit for its Debt Policy. Nowhere within the City are those limits being met and Staff expects those limits to be exceeded with the authorization of the rehabilitation of the Treatment Plant.

Vice Mayor DuBois noticed that there is a category listed under Other Post Employee Benefit (OPEB) where employees are inactive and not receiving benefits. He wanted to know what the likelihood was for those employees to activate their benefits.

Ms. Nose expected a high likelihood.

Vice Mayor DuBois concluded that the City is not going to make any extra contributions to the 115 Trust beyond the policy.

Ms. Nose confirmed that the 6.2 percent Normal Cost payment will be made as well as the \$2 million excess in retirement savings.

Vice Mayor DuBois asked where the extra \$2 million came from.

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Ms. Nose explained that the City did not fully spend what was planned to be spent on retirement which resulted in a small surplus.

Chair Tanaka wanted to know if the electric waste trucks were considered an asset and if that asset could offset in the Refuse Fund.

Ms. Nose noted that Green Waste bought the trucks and the City invested in that purchase. If the City capitalized on the acquisition of the trucks, it would not impact how the City operates the fund from a financial perspective. Green Waste owns the trucks per the contract between them and the City.

Ms. Fernando concurred that it is considered an expenditure based on the contract that was approved by Council.

Ed Shikada, City Manager added that Chair Tanaka had raised the issue when Council was reviewing the contract.

Chair Tanaka disagreed with having Green Waste being the owner of the trucks. He mentioned that the City has increased the Public Safety Building amount by \$811,000.

Ms. Nose noted that the Public Safety Building expenses will be increased in FY 2020 which will result in lower expenses in FY 2021. By doing so, the project expenses would not change.

Chair Tanaka wanted to delay the Public Safety Building project altogether and he did not want to see an increase in expenses. He inquired why the Cubberley Community Center track and field expenses went up.

Ms. Nose restated that the project budget is not going up, but was a timing issue.

Chair Tanaka clarified that the report states higher than anticipated expenditures for Cubberley Community Center.

Ms. Nose clarified what the table in the report reflects took place in FY 2020 and Staff will clarify that table in the future to reflect that it has to do with a timing issue.

MOTION: Council Member Kniss moved, seconded by Vice Mayor DuBois to recommend that the City Council approve the City's Fiscal Year 2020 Comprehensive Annual Financial Report (CAFR).

MOTION PASSED: 3-0

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Ms. Nose articulated that if there is no unanimous decision made by the Committee, the item will be brought to Council as an Action Item.

Chair Tanaka did not want to see the Public Safety Building expenditures increased.

Vice Mayor DuBois suggested that the Committee vote for all the amendments and leave the Public Safety Building out.

Kniss the psb is not going to come up until Feb. So it may alter the course of the PSB and whether or not you want to treat it any differently as a result of that, you may want to ask Mayor?

Dubois if we don't vote it will be an action item, which is fine,

Nose one year where whole item, CAFR and amendments came as action item because it was not unanimous in FCM

MOTION: Council Member Kniss moved, seconded by Vice Mayor DuBois to recommend that the City Council approve amendments to the Fiscal Year (FY) 2020 Budget Appropriation Ordinance for various funds as identified in the attached Recommended Amendments to the City Manager's FY 2020 Budget.

MOTION PASSED: 2-1 Tanaka no

3. Staff and the Utilities Advisory Commission Recommend the Finance Committee Recommend the City Council Approve the 2025 Base Resource Power Supply Contract for the Central Valley Project With Western Area Power Administration to Preserve the City's Options to Maintain, Terminate, or Reduce its Allocation Until June 30, 2024.

Dean Batchelor, Director of Utilities affirmed that Utility Staff and the Utilities Advisory Committee (UAC) was seeking approval from the Finance Committee (Committee) to recommend the City Council (Council) approve the extension of 2025 to 2050 Western Electric Supply Contract.

Lena Perkins, Senior Resource Planner acknowledged that the Western Electric Supply Contract is a hydroelectricity contract that was for the duration of 30-years. If adopted the contract will begin in the year 2025. Western provides 40 percent of Palo Alto's (City) electric supply and is a competitive carbon-free electric resource. The City has the option to reduce or terminate the contract entirely up until June 30, 2024, and Staff will continue to evaluate alternative proposals until 2023. A key modification was that the City has the option to reduce or terminate the 30-year contract every 5-years. All risks and uncertainties will be analyzed and finalized for the 2024 decision process.

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UAC recommended the full share of the contract. During Staff discussions with the UAC, Staff noted that there are no downsides to adopting the contract, the largest risk expressed by Staff was the unimpaired flow requirements, and there was a risk of higher costs. There will be a new overall rate formula set every 5-years. The contract must be executed by March 16, 2021.

Vice Mayor DuBois asked if the contract will come back to Council before the June 30th, 2024 deadline.

Ms. Perkins answered only if the City decides to reduce or terminate the contract.

Vice Mayor DuBois inquired if the analysis Staff was conducting will be brought to the UAC.

Mr. Batchelor confirmed that it will be brought to both UAC and Council if there are any changes.

Vice Mayor DuBois questioned what scenarios would trigger a cancellation of the contract.

Ms. Perkins reported that the contract would be terminated if there are very low market prices for other carbon-free resources, or if the cost of the resource was increasing but generation is going down. Reducing the share could happen if there were continued load declines.

Vice Mayor DuBois inquired if there are costs to reduce the shares within the contract.

Ms. Perkins answered no.

Vice Mayor DuBois wanted to know what rivers were involved in the unimpaired flow.

Ms. Perkins confirmed that there are current negotiations with the State Water Resources Control Board regarding unimpaired flow. The risk is that the project could lose between 20 and 30 percent of the monetary value of the electricity.

Vice Mayor DuBois shared that the Council took a unanimous position regarding the unimpeded flow for the Bay Delta Plan and the Tuolumne River. He asked if the City will conflict with the Bay Delta Plan if the contract is adopted.

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Ms. Perkins explained that the City is a customer and does not own the contract. She agreed that Vice Mayor DuBois's question deserves more discussion.

Council Member Kniss wanted to know how different the contract is from the prior contract.

Ms. Perkins noted that the contract is more favorable compared to the City's current contract.

Vice Mayor DuBois summarized that economically the City would not want impeded flows, the contract is based on environmental contributors, and the City should consistently explore alternative sources. He agreed that the contract was well negotiated and worth adopting, but he cautioned that the Council may be advocating for unimpeded flows that would drive prices up.

Ms. Perkins acknowledged that she is aware of the Council's decisions and the financial implications for the electricity supply portfolio.

Jon Abendschein, Director of Utilities & Resource Management emphasized that Staff has kept Council's position in mind as Staff has considered the contract and Staff will continue to track the discussion.

Mr. Batchelor agreed.

Chair Tanaka inquired what happens if the City does not sign the contract by the March 2021 deadline.

Ms. Perkins reiterated that the City must sign the contract for the City to receive the resource on January 1st, 2025.

Chair Tanaka asked if there was a possibility to negotiate a termination time for every year instead of every 5-years.

Ms. Perkins disclosed that Western would not agree to that and the City is the only region that has the 5-year termination clause.

Chair Tanaka voiced concern regarding global warming, that more droughts are predicted within the State of California, and for those reasons hydroelectric is very high risk.

Ms. Perkins explained that the project is based on rain-fed rivers, not snow-fed and the project was operated for water supply for large farms located in the state. Hydroelectricity is a secondary product that is sold for money. For those reasons, the City would share the cost of the infrastructure with the

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farmers. The resource can be shaped daily but it cannot be shaped seasonally which poses risks as well.

Mr. Abendschein emphasized the flexibility that hydroelectric power provides over solar and wind.

Chair Tanaka asked what the cost difference is between hydroelectric power and other alternatives.

Ms. Perkins indicated that the resource is fundamentally designed to be a below-market resource available only to public agencies. Solar and wind are at market costs.

Chair Tanaka wanted to know about nuclear power costs.

Ms. Perkins noted that nuclear power costs are roughly double the cost.

Chair Tanaka asked if there is any capability to reverse pump the water to facilitate energy storage.

Ms. Perkins mentioned that the pumps would need to be upgraded and the City would bear the full cost of that.

Mr. Abendschein added that the flexibility within the day can be used to store energy.

Chair Tanaka questioned if there is a minimum usage that is required.

Ms. Perkins confirmed that overall load declines are one scenario when the City may decrease the shares within the contract.

Ed Shikada, City Manager emphasized that Staff fully understands the pros and cons of the contract.

Mr. Abendschein confirmed that the energy load is down by 5 percent due to COVID-19, but there are mechanisms built into the contract where the City can take steps to decrease their share.

Chair Tanaka questioned if the contract could be audited.

Kyle O'Rourke, City Auditor answered yes.

MOTION: Vice Mayor DuBois moved, seconded by Council Member Kniss to recommend the City Council approves the extension of the City of Palo Alto's current electricity supply contract, which is the 2025 Base Resource Contract for the Central Valley Project (CVP) with the Western Area Power

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Administration (WAPA) titled, "Contract 20-SNR-02365 United States Department of Energy Western Area Power Administration Sierra Nevada Region contract for electric service base resource with City of Palo Alto" for the full amount of generation available (12.06299% share), to preserve the City's options to maintain, terminate, or reduce its allocation until June 30, 2024, to be reviewed by Council before the expiration date as part of the integrated resources plan.

Chair Tanaka wanted to have the audit team review the contract.

Mr. Batchelor concurred that the audit is already baked into the Motion.

Chair Tanaka requested that the contract come before Council before the June 2024 deadline.

Mr. Shikada believed there to be other annual plans that come to Council on an annual basis. He suggested that the Western Contract be incorporated into one of those regular updates.

Mr. Abendschein agreed to Mr. Shikada's suggestion.

Ms. Perkins mentioned that the Western Contract will be the primary decision in the Integrated Resource Plan which will be brought before Council before the June 2024 deadline.

Mr. O'Rourke did not see within the contract an auditor's clause and for that reason, he did not know if the City could audit the agreement.

Mr. Shikada clarified that the audit of the efficacy of Staff's administration of the agreement is within the purview of the City Auditor.

Chair Tanaka wanted to see language added to the Western Contract regarding an auditor's clause.

Ms. Perkins emphasized that the contract has already been finalized. Western does do their own audits and those findings are available.

MOTION PASSED: 3-0

Future Meetings and Agendas

Chair Tanaka announced that the next Finance Committee meeting will be held on December 15th, 2020.

Adjournment: The meeting was adjourned at 10:00 P.M.

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