



FINANCE COMMITTEE FINAL MINUTES

Special Meeting
November 17, 2020

The Finance Committee of the City of Palo Alto met on this date via virtual teleconference at 6:00 P.M.

Present: DuBois, Kniss, Tanaka

Absent:

Oral Communications

None.

Agenda Items

1. Discussion With the Palo Alto History Museum and Recommended Direction to the City Council Regarding Options for the Rehabilitation and Future use of the Roth Building Including: Funding, Construction Phasing, and Financial Support Requested by the Museum.

Kiely Nose, Director of Administrative Services and Chief Financial Officer introduced David Ramberg and Rich Green who presented the item to the Finance Committee (Committee).

David Ramberg, Assistant Director of Administrative Services disclosed that Staff is presenting the next steps for the Roth Building at 300 Homer Avenue. The project is a two-phased project and Phase One is to rehabilitate the building at a cost of roughly \$10.5 million. Staff is seeking direction from the Committee in terms of funding options, limitations, and recommendations of next steps that will be present to City Council (Council). In the year 2000, the City purchased the Roth Building and approved it as a historic designation. In 2019 a Building Permit was issued and on March 2, 2020, Council approved to move forward with a Request for Proposal (RFP) and potential rezoning of the site; as well as allow Staff to investigate additional possible shared space arrangements and refer to the Committee a discussion for possible build-out and financing. Palo Alto History Museum (PAHM) is requesting that the City fund the remaining Phase One construction cost of \$3.7 million, issue a 40-years lease between the City and PAHM, and commit to a partnership for the rehabilitation of the Roth Building. PAHM has spent roughly \$1.8 million

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to date on preparation work. Phase One could be broken into two phases. Phase One A, the cold shell, is partial rehabilitation and it could be funded with existing funds of \$6.5 million. Phase One B is completing the full rehabilitation with a cost of \$4 million. There are readily available funds of roughly \$6 million that have been set aside by the City for the project which includes Impact Fees and Stanford University Medical Center (SUMC) Funds. PAHM has roughly \$.5 million on hand to put towards the project. In terms of Impact Fees, there is roughly \$600,000 available with a potential of \$3.1 million if other projects funded by Impact Fees are prioritized for future years. There are restrictions for the Community Center Fees, Library Fees, and Park Fees. The SUMC Fund has an unallocated balance of roughly \$3 million. To proceed with the PAHM partnership, the City would need to enter a lease or a lease option to free up donor funds that would be used to rehabilitate the Roth Building. There are several lease terms to consider such as the 40-year term, demonstration of financial commitments, and public restrooms available to the adjacent park. PAHM has expressed a desire to share space with a for-profit entity as well. Staff presented several options for the Committee to consider for potential funding. Option A is to pursue only the cold shell at \$6.5 million and return to the Committee with additional funding options as well as a lease option or lease agreement. Option B is to pursue the full build-out at \$10.5 million and return with an additional funding plan as well as a long-term lease. Option C is to pursue other possible tenants with an RFP.

Rich Green, President of Palo Alto History Museum emphasized that the City wants and needs a history museum in the Roth Building. The funding for the history museum component will be entirely private with no funds coming from the City. The project is shovel-ready, but there has been some uncertainty in the partnership with the City. PAHM requests that the City make a one-time investment of funds for rehabilitation for the Roth Building and secure the partnership with PAHM. The Roth Building has contributed to the City over the years through historical significances such as housing the entrepreneurs who founded the innovative clinic and supported artists whose creations remain controversial. With PAHM occupying the building, many amenities will be available to the public that are not otherwise available such as a public restroom and a parkside cafe. Included inside the museum will be programmed areas, community center uses, educational resource rooms, a board room, City archives, and shared space for a for-profit partner. PAHM feels that there may be more funding available in the Impact Fees which would help reduce the amount that is requested to come out of the General Fund (GF). PAHM was not in support of Option A, the cold shell option, because it would only partially restore the Roth Building, and Option A does not allow the release of donor funds because those funds can only be used for a complete restoration project. The Stanford Libraries, Palo Alto Chamber of Commerce and Visitor Center, the Computer History Museum, and several other entities

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along with many community partnerships all pledge their support for a history museum in the Roth Building.

Hal Mickelson, a resident of Green Meadow Neighborhood, read statements of support for a history museum from Susan Packard Orr, Greer Stone, and Gayle Wooly.

David Bubenik emphasized that the City is the cradle of electronics. For this reason, it is important to preserve that history in a place where the community can enjoy it.

David Kennedy, a professor of history at Stanford University, believed that the sentiment of the quote, we don't have so much history that we can afford to lose any of it, summed up why it is so important to have a history museum in the City.

John King read several quotes from folks such as Jim Wall, Board President of the Museum of American Heritage, and Deborah Shephard, a Member of County Historical Heritage Commission, who supported having a history museum in the City.

Jane Gee read comments of support for a history museum from Annette Fazzino, Greg Schmid, and Dr. Laura Jones.

Council Member Kniss noted that PAHM is requesting roughly \$10 million in funding from the City.

Mr. Green clarified that the request is roughly \$4 million to complete the rehabilitation of the Roth Building.

Ms. Nose confirmed that the funding gap is \$4 to \$4.5 million.

Council Member Kniss emphasized that the budget is very tight and inquired where the funds would come from if the City decided to fund the project.

Ms. Nose summarized that one option is to use City Impact Fees but that may require the City to reprioritize projects. Another option is to use SUMC Funds which is less than \$3 million that is unallocated. The last option is to allocate funds from the General Fund, but that would trigger a change in services that are provided by the City.

Council Member Kniss requested what the next steps would be if the rehabilitation project is fully funded.

Mr. Green shared that construction would begin and take roughly one year. Running in parallel to construction, PAHM will be designing the exhibits which

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will be installed after construction is complete. The museum component is not fully funded to date and so PAHM plans to prioritize the community access aspects first before exhibits are installed.

Vice Mayor DuBois inquired about the 40-year lease that was never formally executed.

Mr. Ramberg confirmed that in 2005 the lease options were never formally met and so the lease option was never formally exercised.

Vice Mayor DuBois asked if the Roth Building is located on dedicated parkland.

Mr. Ramberg answered that the building sits outside of the park but the building will operate as a park.

Molly Stump, City Attorney confirmed that Santa Clara County is aware that the land is not dedicated as parkland under Palo Alto's Special Park Dedication definition, but they are satisfied with how the property is being handled.

Vice Mayor DuBois challenged if the museum must be approved to use the funds.

Mr. Ramberg disclosed that as presently written, the county grants include the museum.

Vice Mayor DuBois wanted to know if it unusual for the City to operate a public restroom.

Ms. Nose noted that it is not unusual for the City to operate a restroom.

Vice Mayor DuBois inquired what the Transfer Development Rights (TDR) Funds are eligible to be used for.

Mr. Ramberg responded that the TDR Funds are tied to the Roth Building and are not tied to the History Museum.

Ms. Nose added that the TDR Funds can only be used if the project meets historic preservation requirements.

Vice Mayor DuBois summarized that Council needs to weigh the health of the building against the benefits that PAHM is offering to the City. He liked the value of having a mini-museum district and that the City archives could be held in the museum. He acknowledged that it would be difficult to raise money if there is no lease between the City and PAHM. He wanted the item to come before Council so that Council can consider a long-term lease that includes terms for the public bathroom and community room as well as direct Staff to

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identify funding and to allow for shared space with a for-profit or non-profit entity. He encouraged Council to either fully invest in the project with PAM or not at all.

Chair Tanaka inquired where the City's archives are located currently.

Laura Bajuk, Executive Director of Palo Alto History Museum answered that they are located at the Cubberley Center, but in rooms that are not equipped to house historic documents.

Chair Tanaka asked how long the Roth Building has been vacant.

Ms. Nose shared that the City bought it in 2000 and has housed no tenant since then.

Chair Tanaka inquired how big the building is.

Mr. Green answered that the building is 20,000-square feet.

Chair Tanaka requested how much rent is in the downtown area.

Ms. Nose mentioned that the building is in South of Forest Area (SOFA) and one thing to consider is the parking requirements associated with that.

Chair Tanaka emphasized that the City has lost a lot of revenue by allowing the building to sit vacant for over 20-years. He asked how long PAHM has been raising money to fund a history museum.

Mr. Green answered that the clock starts when there is a signed lease option agreement with the City.

Chair Tanaka challenged if fundraising can only occur when there is a lease agreement.

Ms. Stump disclosed that there is no legal restriction on fundraising.

Chair Tanaka questioned what year the history museum idea was brought forward.

Mr. Ramberg restated that in 2002 the Council approved an RFP to go out and PAHM submitted their RFP in 2003 and it was accepted in 2005.

Chair Tanaka acknowledged that it has taken PAHM a long time to raise funds and he was concerned about the funding gap that is remaining. He summarized that funding for the Junior Museum and Zoo (JMZ) Project would have to be defunded in order to prioritize the Roth Building.

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Brad Eggleston, Director of Public Works disclosed that the funding for the JMZ Project is primarily focused on replacing existing playgrounds and creating a new entranceway into the park. The funds will also replace the existing pathways in the park.

Ms. Nose reported that the JMZ is a jointly funded project, but most of the funding comes from donors.

Kristen O’Kane, Director of Community Services confirmed that the Friends of the Junior Museum and Zoo were able to fundraise \$20 million for the overall project. The City did contribute roughly \$8 million.

Chair Tanaka asked how long it took the JMZ to raise their portion of the funds.

Ms. O’Kane noted several years.

Chair Tanaka announced that the Library Automated Internal Handling Project would also need to be defunded to support the Roth Building rehabilitation. He questioned how that would impact patrons who use the library.

Gayathri Kanth, Acting Director of Library Services shared that Staffing has been reduced in the Children’s Library by 50 to 60 percent with the assumption that the automated system would be installed. Without the new system, it would be very difficult to open the Children’s Library.

Chair Tanaka reiterated that the SUMC Funds have historically been used for Project Safety Net. He requested what the impacts would there be if the SUMC Funds were used for the history museum instead.

Ms. Nose reported that the SUMC Funds are not Impact Fees, they are part of a separate agreement. The funds have not been allocated and it is Council’s discretion on what those funds can be used for.

Ed Shikada, City Manager added that Project Safety Net has historically been funded by the City, but it is currently working on a transition plan to become financially self-sustained.

Chair Tanaka questioned if Project Safety Net would be endangered if SUMC Funds were allocated to the history museum.

Ms. Nose answered no because Project Safety Net is funded through the General Fund.

Chair Tanaka requested what services Project Safety Net provides to the City.

Mr. Shikada confirmed it provided suicide prevention.

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Chair Tanaka inquired if the SUMC Funds could be used for Coronavirus (COVID-19) related issues.

Ms. Stump concurred that virus testing and recovery would qualify under the requirements for the funds.

Chair Tanaka wanted to see the SUMC Funds to be used for COVID-19 related items. He questioned if the history museum qualified as a health and safety use.

Ms. Stump mentioned that the definition is vague and it is up to Council to decide if it qualifies or not.

Chair Tanaka asked about the restroom funding that is being proposed.

Mr. Ramberg commented that funds have not been allocated, but there is potentially \$300,000 available that could be used for the restrooms.

Chair Tanaka requested more information regarding the Foothill Park restrooms.

Ms. Nose interjected that the funds are not restricted to just restrooms.

Chair Tanaka summarized that Foothills Park is now open to non-residents. He wanted to understand what the impact would be on Foothills Park if the funds are relocated to the history museum.

Ms. O’Kane disclosed that there is a Capital Improvement Project (CIP) for the Foothills Park’s restrooms and those restrooms will be substantially more expensive than the one proposed bathroom at the history museum.

Mr. Shikada confirmed that there is a backlog of projects at Foothills Park.

Vice Mayor DuBois emphasized that there are unallocated funds available that could be used instead of defunding any of the existing projects. Council could change the guidelines for the SUMC Fund. He agreed that the building could be bringing in revenue for the City, but Council has historically funded projects that supply community benefits instead of projects that bring revenue to the City.

MOTION: Vice Mayor DuBois moved, seconded by Council Member XX to recommend the City Council direct Staff to identify funding for the full rehabilitation of the Roth Building and to bring this item to Council.

MOTION FAILED DUE TO LACK OF A SECOND

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Council Member Kniss supported Option A and having Staff return with additional funding and a lease option or a lease agreement. She articulated that she is concerned about whether PAHM can execute next steps after the building is rehabilitated. She agreed with Chair Tanaka's point that PAHM has not been able to raise a significant amount of funding in the past 10 years.

MOTION: Council Member Kniss moved, seconded by Vice Mayor DuBois to recommend the City Council direct Staff to identify funding for a "cold shell" construction project (\$6.5 million) including use of "Available Financial Sources" as identified in Table 1, with additional funding needs to be identified by the City ranging between \$500,000 - \$1.0 million and return to the City Council with both additional funding and a lease or lease option agreement with the Palo Alto Museum for a finite period. Some funding, such as Palo Alto Museum (PAHM) donor funds, necessitate using PAHM approved plans, and to identify other potential funding options.

Vice Mayor DuBois agreed that the lease option needs to be for a reasonable length of time to allow PAHM to raise funds.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER to have Staff work with museum staff to suggest a length of time for the museum to have enforceable lease terms, subject to conditions.

Ms. Stump requested clarification if Vice Mayor DuBois meant by time, a length that the lease option would last.

Vice Mayor DuBois answered yes.

Mr. Shikada restated that PAHM has requested a 40-year lease.

Vice Mayor DuBois suggested that Staff negotiate with PAHM on a different length for the lease.

Mr. Shikada advised the lease length be dependent on PAHM's ability to raise funds in the first few years and if those targets cannot be reached then the lease would be revoked.

Vice Mayor DuBois supported Mr. Shikada's suggestion.

Vice Mayor DuBois asked if the lease could be structured in a way that the lease would be a 40-year lease, but if certain goals are not met then the lease would be revoked.

Ms. Stump noted that she would have to research it more, but predicted that it could be structured that way.

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Chair Tanaka supported the idea Mr. Shikada put forth. He requested how the shareable space for a for-profit or non-profit would be managed.

Mr. Shikada commented that Staff and PAHM have not discussed that, but it made sense for the museum to handle the shareable space as a sublease.

Ms. Nose clarified that PAHM is requesting that the shareable space not be limited to just non-profits.

Mr. Shikada added that it is the Council's decision to make if the museum should have site control of the shareable space or not. If the museum does not meet the criteria in its lease, the shareable space would revert to the City for management.

Chair Tanaka wanted to see steady progress made by PAHM in terms of fundraising.

MOTION AS AMENDED RESTATED: Council Member Kniss moved, seconded by Vice Mayor DuBois to recommend the City Council direct Staff to:

1. Identify funding for a "cold shell" construction project (\$6.5 million) including use of "Available Financial Sources" as identified in Table 1, with additional funding needs to be identified by the City ranging between \$500,000 - \$1.0 million;
2. Return to the City Council with both additional funding and a lease or lease option agreement with the Palo Alto History Museum (PAHM) for a finite period; some funding, such as PAHM donor funds, necessitate using PAM approved plans, and to identify other potential funding options; and
3. Direct Staff work with museum staff to suggest a length of time for the museum to have enforceable lease terms, subject to conditions.

MOTION AS AMENDED PASSED: 3-0

Mr. Shikada noted that this item can go on the Consent Calendar for Council.

Vice Mayor DuBois wanted the item to come to Council as an Action Item.

Chair Tanaka agreed with Vice Mayor DuBois.

Mr. Shikada disclosed that the item would not go before Council until January of 2021.

Vice Mayor DuBois left at 8:20 P.M.

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Council went on break at 8:21 P.M. and returned at 8:30 P.M.

2. Finance Committee Recommends the City Council Approves Amendment Number 1 to Contract Number C19171565 With Brown and Caldwell for Professional Design Services on the Secondary Treatment Process Upgrade Capital Improvement Project (WQ-19001) at the Regional Water Quality Control Plant to add Services, Increase Compensation by \$1,500,745 for a new Maximum Compensation Not-to-Exceed \$4,424,101, and to Extend the Contract Term Through September 30, 2025.

Brad Eggleston, Director of Public Works articulated that the design contract was brought to the Finance Committee (Committee) because there have been significant changes to the scope of the project which increased construction costs.

Jamie Allen, Plant Manager gave a brief description of the Regional Water Quality Control Plant (RWQCP). The RWQCP is own by Palo Alto (City). The City of Mountain View, the City of Los Altos, the City of Los Altos Hills, Stanford University, and the East Palo Alto Sanitary District are the partners that use the plant. In 2006 the Long-Range Facilities Plan was adopted which provided a plan for future Capital Improvement Projects (CIP) for the RWQCP. Since 1972 to date, \$155 million has been invested in CIPs. In recent years the City has been using the State Revolving Fund Loan to fund the CIPs. CIPs that are currently in progress include the Primary Sedimentation Tank Rehabilitation, New Outfall Pipeline, Secondary Treatment Upgrades, Technical Services Building, Advanced Water Purification System, Headworks Facility, and various other small projects. In terms of the Secondary Treatment Upgrade, the project addresses a regulation limit that is issued by the State of California regarding nitrogen requirements as well as aging infrastructure, increased secondary treatment capacity to reach the required nitrogen removal levels, and utilizes unit process intensification. The design of the project is roughly 30 percent complete with the hope that 60 percent will be complete by mid-December of 2020. Construction for the project will start at the end of the year 2022 and end in the year 2025. The current system is 40 to 48 years old and the current design cannot remove the required nitrogen level that is required by the State of California. Staff is seeking an amendment to the current contract of \$1.5 million which covers 20 percent for structural design to handle sea-level rise policies, 50 percent for the design of new structures, and 30 percent of the design for the Membrane Aerated Biofilm Reactor Technology. With the requested amendment, the total cost of the new contract is approximately \$4.4 million.

Chair Tanaka mentioned that the increase in the design cost is significant.

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Ed Shikada, City Manager reported that the change is not an increase in cost, but a change in scope.

Chair Tanaka questioned why the change was not anticipated before the project was started.

Mr. Allen explained that at the time of the walkthrough, Staff believed that many of the existing rooms could be repurposed but found out later that they could not be repurposed.

Chair Tanaka asked how often the City endures an increase of 50 percent for design costs for CIPs.

Mr. Eggleston answered that it is not typical and only happens when the scope of a project is changed.

Chair Tanaka inquired where the extra \$1.5 million will come from.

Mr. Allen disclosed that it will be reimbursed through the loan and the loan is paid for by the sewer rate pays located within the six agencies that own a share of the RWQCP.

Chair Tanaka questioned how much of an increase will ratepayers see on their bill.

Mr. Allen proclaimed that the costs will be rolled into the sewer/wastewater collection expenses and that will be brought forward to the Utilities Advisory Commission.

Chair Tanaka predicted a 17 percent increase or less.

Mr. Allen confirmed that it would most likely be less than 17 percent.

Chair Tanaka wanted to know if the project could be delayed.

Mr. Allen emphasized that if upgrades are not made to meet state regulations for nitrogen, the City is vulnerable to litigation.

Mr. Eggleston added that CIPs almost always take longer than predicted to complete and it is risky not to move forward.

Chair Tanaka asked if the other Cities who hold a share have a say in what CIPs take place.

Mr. Allen disclosed that the other agencies have agreed to pay for design and they have never opposed a CIP.

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Chair Tanaka announced that next steps would be to request approval of the construction cost from the other agencies and after that approve the rate increase.

Mr. Allen confirmed that is correct.

Chair Tanaka asked if the percentages that the other agencies pay will change.

Mr. Allen noted that the Operating Budget changes year by year, but the Capital cost is a fixed capacity.

Chair Tanaka questioned how much out of kilter is the capital allocation compared to the actual usage.

Mr. Allen noted that it is very similar among the agencies.

Mr. Shikada suggested that Mr. Allen explain how the shares adjust based on development.

Mr. Allen explained that each partner has a capacity limit and each agency is allowed to develop up to that capacity limit. None of the agencies are close to reaching their limit.

Chair Tanaka wanted to know if the City could renegotiate the cost of shares based on usage.

Mr. Shikada disclosed that renegotiating would not have a positive outcome.

Mr. Allen added that no agency has expressed wanting a higher share.

Chair Tanaka mentioned that the shares should be based on usage. He inquired what the terms are for renegotiation.

Mr. Allen explained that a discussion would take place with Staff of all the agencies to see if they would want to take over more shares.

Chair Tanaka asked what the rates are for commercial facilities.

Mr. Allen shared that he did not know the commercial rates.

Chair Tanaka wanted to see monthly rates for the commercial sector.

MOTION: Chair Tanaka moved, seconded by Council Member Kniss to recommend the City Council:

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1. Approve and authorize the City Manager, or his designee, to execute Amendment No. 1 to Contract No. C19171565 with Brown and Caldwell to increase the contract amount by \$1,500,745 to provide design engineering services beyond the original scope of the contract for the design of the Secondary Treatment Process Upgrades Project (CIP WQ-19001);
2. Extend the term through September 30, 2025;
3. Have the revised total contract amount not exceed \$4,424,101, including \$4,021,911 for basic services and \$402,191 for additional services;
4. Direct Staff perform a commercial comparison of rates; and
5. Direct Staff compare the Operating Share versus the Capital Share versus the Maximum Flow Capacity.

MOTION PASSED: 2-0 DuBois absent

Future Meetings and Agendas

Kiely Nose, Director of Administrative Services and Chief Financial Officer reported that the next Finance Committee meetings will be on December 1st, 2020, and December 15th, 2020.

Adjournment: The meeting was adjourned at 9:14 P.M.