



# FINANCE COMMITTEE SUMMARY MINUTES

Special Meeting  
November 29, 2022

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

Present In-Person: Filseth, Kou

Present Virtually: DuBois (Chair)

Absent: None

## Oral Communications

NONE

## Agenda Items

1. Discussion and Recommendation to the City Council Accept the Macias Gini & O'Connell's (MGO) Audit of the City of Palo Alto's Financial Statements as of June 30, 2022

City Auditor Adriane McCoy explained the role of the City Auditor. MGO was introduced as the City's external financial auditor. The purpose of the annual external audit was explained. The Single Audit is anticipated to be completed in January 2023.

MGO Partner David Bullock presented the results of the 2021-2022 Audit. The purpose of the audit is to provide reasonable assurance that amounts are fairly stated in the financial statements. Generally accepted accounting principals (GAAP), generally accepted auditing standards (GAAS), and Government Auditing Standards (GAGAS) were used. There were no exceptions to the basic financial statements. There were no material weaknesses or significant deficiencies in internal controls over financial reporting. New liabilities and assets on the books were highlighted including a \$120M decrease in the net pension liability as a result of investment returns. There were significant investment losses during the year as a result of the market.

# SUMMARY MINUTES

Assistant Director of Administrative Services Christine Paras stated Staff recommend they hear items 1 and 2 together to get the full picture of the financial results.

Chair DuBois asked if the lawsuit settlement around the Green case was looked at as part of the audit. Mr. Bullock stated all claims activity was looked at during the audit. Assistant City Manager/CFO Kiely Nose said external auditors look at claims and potential liabilities at a certain dollar value magnitude. The City commissions an actuarial study on all claims against the City. The study is used to identify the lump sum liability placed on the books. The City reserves funds totaling 85 percent of the projected liability.

Chair DuBois asked how long auditing around the landfill would be performed. Environmental laws determine length of time to monitor after closure. Mr. Bullock estimated monitoring continues at least 30 years after closure.

Chair DuBois questioned Palo Alto having the largest expense regarding wastewater treatment despite Mountain View using more of the plant. The partners' share versus the City share is based on outflow and a number of different parameters that the Public Works Department calculates.

Finance Manager Rocelyn Fernando presented on the FY 2022 Annual Comprehensive Financial Report (ACFR) and Budget Adjustments. The City's net position was \$1.27B, an increase of \$40.6M from FY 2021. The Statement of Activities for 2021 and 2022 Governmental and Business-type Activities along with Government-wide totals was presented. Of the \$1.27B net position, 92.4 percent was invested in capital assets and not available for spending, 6 percent were restricted funds, and 1.6 percent were unrestricted funds. The total combined governmental fund totaled \$327.1M. The General fund ended with a \$72.8M Budget Stabilization Reserve (BSR). The City's Proprietary Fund totaled \$796.8M.

Council Member Eric Filseth asked why the documentary transfer tax was higher than expected. Staff said a couple material large commercial transactions led to that.

Regarding budget adjustments, the public safety debt payment will be in the budget in the future.

Staff did not recommend the full \$14.2M BSR excess be moved to the 115 and infrastructure reserve given the uncertainty in the broader economic sense. The uncertainty revolves around questions about whether the country is in a recession or heading toward one and the pace of inflation.

# SUMMARY MINUTES

**MOTION:** Council Member Filseth moved, seconded by Vice Mayor Kou to recommend the City Council approve the City of Palo Alto's audited financial statements for the fiscal year ended June 30, 2022 and the accompanying reports provided by Macias Gini & O'Connell LLP.

**MOTION PASSED:** 3-0

2. Approval of the FY 2022 Annual Comprehensive Financial Report (ACFR) and Year-End Budget Amendments in Various Funds

**MOTION:** Council Member Filseth moved, seconded by Vice Mayor Kou to recommend the City Council approve:

1. The City's Fiscal Year (FY) 2022 Annual Comprehensive Financial Report (ACFR); and
2. Amend the FY 2022 Budget Appropriation Ordinance for various funds as identified in the attached Recommended Amendments to the City Manager's FY 2022 Budget (Operating Budget: Attachment B – Exhibit 1; Capital Budget: Attachment B – Exhibit 2).

**MOTION PASSED:** 3-0

3. Staff Recommends the Finance Committee Recommend the City Council Adopt a Resolution Amending Electric Rate Schedule E-HRA (Electric Hydro Rate Adjuster) Increasing the Current E-HRA Rate to \$0.050/kWh Effective January 1, 2023

The Electric Hydro Rate Adjuster (E-HRA) is designed to help fund for additional power purchase costs when hydro supplies are low. FY 2022 purchase costs were \$16M higher than estimated and FY 2023 looks to be similarly high. Hydro Stabilization Reserves have been drawn down to \$400,000. Supply Operation Reserves will be \$22.2M.

Regarding rate increases, residential bills would increase 7 percent with a \$0.026/kwh surcharge and 20 percent with a \$0.048/kwh surcharge but less than the PG&E rate.

Drier conditions caused higher purchase costs and transmission costs were higher than estimated. Staff recommended increasing the E-HRA. The adjuster could be taken away if conditions change and reservoirs rise.

# SUMMARY MINUTES

Chair DuBois invited members of the public to speak. There were no requests to speak.

**MOTION:** Chair DuBois moved, seconded by Council Member Filseth to recommend the City Council adopt a Resolution of the Council of the City of Palo Alto Amending the Electric Hydro Rate Adjuster rate schedule (E-HRA), Increasing the Current E-HRA Rate to \$0.048/kWh Effective January 1, 2023, to reflect current hydrological conditions and market purchase costs. This would replace the existing EHRA surcharges and discounts across all levels, and increase the current E-HRA rate from \$0.013/kWh to \$0.048/kWh.

**MOTION PASSED:** 3-0

#### 4. Discussion and Update on Sanitary Sewer Main Replacement Acceleration Alternatives

Assistant Director Utilities Engineering Matthew Zucca gave an overview of the wastewater collection infrastructure. Since 1990, the City has been replacing older pipe with 36 percent of sewer mains having been replaced since 1992 leaving 138 miles of sewer mains to be replaced. Pipes consist of vitrified clay pipe (VCP) which has a life expectancy of around 100 years. At the current rate of 1 mile per year, it would take 138 years to replace the remaining pipe at which point the oldest pipe would be 190 years old. The current rate of replacement is not prudent to sustain. Staff propose a replacement rate of 2.5 miles per year to complete the project in 55 years.

Current cost estimates include the use of high-density polyethylene pipe with open trench or pipe-bursting installation methods.

Residential sewer rates are 28 percent below comparison cities. Commercial rates are 8 percent above comparison cities.

Funding options for meeting the 2.5 miles per year goal were outlined as well as processes for transitioning to a 2.5 miles per year replacement rate. Staff recommended Alternative 2, which would raise rates over 4 years and keep the largest increases less than 10 percent. The oldest pipes replaced would be 109 years old. No motion was required. Feedback was requested.

High-density polyethylene piping would be used and larger projects would be contracted out and smaller projects taken care of in-house.

# SUMMARY MINUTES

Staff propose that subsequent financial plans incorporate 1 of the 3 alternatives.

Council Member Filseth said he would support option 2 but he could live with option 3. Chair DuBois supported an option between 2 and 3 and Vice Mayor Kou agreed.

Chair DuBois invited public comment. No one requested to speak.

## **NO ACTION**

### Future Meetings and Agendas

One agenda item for the packet will be going out this week concerning pension funding policy recommended revisions.

Adjournment: The meeting was adjourned at 8:02 P.M.