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October 05, 2009

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	ADJOURNMENT: The meeting adjourned at 1:00 a.m.	211

The City Council of the City of Palo Alto met on this date in the Council Chambers at 6:35 p.m.

Present: Barton, Burt, Drekmeier, Espinosa arrived at 6:40 p.m.,
Kishimoto, Klein, Morton, Schmid, Yeh arrived at 6:45 p.m.

Absent:

CLOSED SESSION

1. CONFERENCE WITH CITY ATTORNEY -- EXISTING LITIGATION
Subject: Frank Benikovsky, et al v. Gerson, Baker & Associates; Oak Creek Apartments; City of Palo Alto, Santa Clara County Superior Court, Case No. 1-08-CV-129575
Subject Authority: Government Code section 54956.9(a)

Mayor Drekmeier advised there was reportable action, that the City Council voted 8-1, with Council Member Barton voting no to approve a settlement in the amount of \$110,000.

STUDY SESSION

2. Joint Meeting with the Utilities Advisory Commission (UAC) Regarding the Ad Hoc Subcommittee Update on Role and Scope of the UAC

Council Member Yeh, Chair of the Ad Hoc Subcommittee, gave an overview of the subcommittee's effort which included a total of four meetings. Other members of the subcommittee include Council Members Burt and Espinosa. Council Member Yeh reported that the first two meetings, one in August and one in September, were spent determining the "workplan" including the deliverables, reviewing the current and potential new scopes, programs and policies for the Utilities Advisory Commission, and discussing the potential for more community outreach and specialists/stakeholders forums. At the request of the subcommittee, Staff completed a survey of organizational structures of municipal utilities. The subcommittee is also planning to survey past and present UAC members and Council liaisons to get feedback on what works and doesn't work about the UAC. Two subsequent meetings were held to review the UAC's organization, roles and responsibilities and to develop the report to the Council on the Subcommittee's recommendations. The advisory nature of the UAC was discussed, with more strategic direction and guidance planned for the annual joint meeting of the UAC and Council scheduled for November 9, 2009.

SPECIAL ORDERS OF THE DAY

3. Resolution 8989 entitled "Resolution of the Council of the City of Palo Alto Expressing Appreciation to Phillip Ignoffo Upon His Retirement."

Vice Mayor Morton read the Resolution expressing appreciation to Phillip Ignoffo upon his retirement.

MOTION: Vice Mayor Morton moved, seconded by Council Member Barton to adopt the Resolution Expressing Appreciation to Phillip Ignoffo upon his retirement.

MOTION PASSED: 9-0

Mr. Ignoffo expressed his appreciation to the City, and his fellow employees, for the years he was able to be a part of the community.

CITY MANAGER COMMENTS

City Manager, James Keene stated the Rotary Club Hoover Park Beautification Project was completed. College Terrace Library and Mayfield Park construction were beginning. The School District will be promoting International Walk to School Day from October 5 through 9, 2009.

ORAL COMMUNICATIONS

Wynn Grcich, 30166 Industrial Parkway, Hayward, spoke regarding a Resolution written by Assemblyman Ira Ruskin on Chloramines.

Beth Colehower, 455 E. Charleston, thanked the City Council for their support of Stevenson House and announced an upcoming event, celebrating Oktoberfest.

Tim Gray, 4173 Park Boulevard, spoke regarding the SEIU negotiations.

Mark Weiss, 1788 Oak Creek Drive, spoke regarding the High Speed Rail teach-in.

Aram James spoke regarding a press conference in front of the District Attorney's office regarding David Pham's death.

CONSENT CALENDAR

Council Member Kishimoto asked whether the Utility Vault and equipment pad would be reviewed for potential impacts on the Streetscape programs.

Chief Planning and Transportation Official, Julie Caporgno stated the current process was for Staff to review the project and the Ordinance. She clarified the Director of Planning had the ability to refer the project to the Architectural Review Board for further review.

MOTION: Council Member Kishimoto moved, seconded by Council Member Yeh to pull Agenda Item Number 5 to become Agenda Item Number 20A.

Council Member Schmid asked for clarification on Agenda Item Number 8.

Assistant to the City Manager, Kelly Morariu stated the Policy & Services Committee recommended a number of items come forward to the October, November, and December meetings. After a review of Staff availability it was decided the October meeting needed to be cancelled.

Council Member Schmid asked for clarification on what the vote was for.

Ms. Morariu stated the recommendation was for Council to approve the work plan, and with the October meeting being cancelled, the economic development item would be scheduled for the November meeting, with the priority setting item scheduled for December.

Council Member Barton registered a no vote on Agenda Item Nos. 17 and 20, and noted he would not participate in Agenda Item Number 18 due to a client living in the College Terrace area.

MOTION: Vice Mayor Morton moved, seconded by Council Member Klein to approve Agenda Item Nos. 4, 6-20.

4. Approval of a Utilities Enterprise Fund Contract with CAD Masters, Inc. in an Amount Not to Exceed \$995,398 for a Geospatial Design and Management Solution Project to Maintain Electric, Water, Gas, Wastewater, Fiber Optic, Traffic Signal, and Street Light Data – Capital Improvement Program WS-02014-502 and EL-02011-501.
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MOTION PASSED for Agenda Item Nos. 4, 6-16, and 19: 9-0

MOTION PASSED for Agenda Item Nos. 17 and 20: 8-1 Barton no

MOTION PASSED for Agenda Item No.18: 8-0 Barton not participating

AGENDA CHANGES, ADDITIONS, AND DELETIONS

- 20A. (Former No. 5.) Approval to Amend the Existing Blanket Purchase Order with Oldcastle Precast to Appropriate \$350,000 for the Purchase of Electric Utility Vaults and Equipment Pads Required for Capital Improvement Projects (CIP) and to Provide Service to New Customers.

Council Member Kishimoto stated the utility boxes could be functional and blend with the environment.

City Manager, James Keene stated Staff would review the idea of enhancements to the design of the utility boxes.

MOTION: Council Member Kishimoto moved, seconded by Vice Mayor Morton to approve and authorize the City Manager or his designee to amend the contract limit from \$150,000 to \$500,000 on the existing blanket purchase order for FY 09-10 with Oldcastle Precast Incorporated for the purchase of electric utility vaults and equipment pads.

Council Member Burt asked whether the process for the equipment purchase had gone beyond the time to request the Architectural Review Board (ARB) to evaluate the project.

Utilities Director, Valerie Fong stated the requested approval from Council was to purchase the equipment not for the use of them.

Council Member Burt clarified the purchase was not for new boxes.

Ms. Fong stated no, the purchase was for new boxes; however, the use of the boxes could be for replacement of older equipment and to have the inventory in stock for necessary repairs or replacements in the future.

Council Member Burt asked whether the ARB would have input on what was being installed.

Mr. Keene stated if it was not essential to providing service or safety, the ARB would have input.

Vice Mayor Morton stated the ARB was created to review higher level structural designs and he did not support the notion of their time being spent reviewing items that were made of concrete and placed underground.

Mr. Keene clarified the ARB would have involvement when an item impacted the views of the neighborhoods.

MOTION PASSED: 9-0

REPORTS OF OFFICIALS

21. Status Report on California Avenue Street Improvements and Recommendations for Community Engagement Regarding Removal of City Owned Street Trees and Approval of Recommended Action Plan for Community Engagement and Board and Commission Review of Tree Replacement and Other California Avenue Street Improvements Including Addition of New Street Furniture, and Street Repaving and Restriping.

Director of Public Works, Glenn Roberts extended his apologies for the events that had taken place in regards to the California Avenue tree removal incident. He wanted to reassure the Council, City Manager and community that this was not a normal practice for the Public Works Department.

City Manager, James Keene stated Staff had three recommendations for Council consideration; 1) Approval of the Action Plan, 2) Approval of the review process for continued California Avenue improvements, and 3) Approval of recommended actions to ensure removal of City owned trees did not occur without proper involvement from Council and the community.

Deputy City Manager, Steve Emslie stated a series of meetings had been outlined for the community to engage in input to the various decisions regarding the California Avenue streetscape project. He clarified the planting of trees was seasonal and November would be the optimal time for dormancy and with the rain to assist in re-rooting. He stated the overall project consisted of numerous components such as the tree replacement, lane reconfigurations, and the streetscape which did not need to follow a sequence.

Mr. Keene stated the goal was not to rush the project but to stop removing any further trees until Staff could return to Council in early November with a report.

Council Member Klein asked what the expected timing was to have the report completed.

Mr. Keene stated his expectation was to have the report released in phases but he would keep the Council informed.

Council Member Klein stated his concern was the investigation would focus on lower level Staff members and he asked whether the report would be thorough through the entire chain of command.

Mr. Keene stated the newspapers and internal Staff had not been communicating accurate information as to what would be in the report.

Council Member Klein asked whether the report would consider what it was in the Department's culture that would have enabled the involved parties to believe they could venture so far out in violating the City's adopted policies.

Mr. Keene stated yes, the report incorporated all aspects of the how's and why's such an incident could occur.

Council Member Klein asked whether the process of the watering system would be brought to Council.

Mr. Emslie stated the current plan was for the trees to be hand watered by the water truck which traveled throughout the City and watered a number of the trees currently planted.

Council Member Klein asked whether there would be a cost analysis comparison for the water truck versus an automated system.

Mr. Emslie stated yes, when Staff returned to Council.

Council Member Klein asked for clarification on the third recommendation, the approval of recommended action. He stated there was no action shown to be approved.

Mr. Emslie stated Staff was asking for more time to work up a more comprehensive program.

Council Member Klein stated he understood Staff needed time; however, he was concerned he was being asked to approve something that was not formulated as of yet.

Mr. Keene stated there was not a specific recommendation for the Action Plan. The intention was to ensure the prevention of these types of incidents in the future.

Vice Mayor Morton asked for clarification that Staff was requesting Council for time to create a comprehensive plan to handle the major urban forestry within the city.

Mr. Keene stated Staff was requesting measures on handling the California Avenue streetscape project, specifically re-instilling the community's confidence in the City.

Vice Mayor Morton stated there were functional items at hand; the first was the handling of the loss of sixty-three trees and the other was modifications to California Avenue. He asked whether the need for California Environmental Quality Act (CEQA) and a Negative Declaration was referring to the project of California Avenue modification or the parallel project of how to handle the loss of the trees.

Mr. Keene stated the CEQA process was the review of the entire project which included the tree removal and replacement at the same time, in order to have the full contextual review. He noted there was no specific order that needed to be followed in order to proceed.

Vice Mayor Morton stated he preferred the tree replacement be started sooner rather than waiting especially if November and December were prime season for replanting. He asked whether the tree replacement could be separated out while continuing to work on the broader project in working within the Negative Declaration.

Mr. Keene stated if the Council agreed with the Staff recommendation on the proposed action plan, during the upcoming weeks Staff would gather information including public input that would enable the tree replacement process to begin this year. He stated the outlined recommendation allowed for Council to make a decision in November whether to replace trees during this year or next.

Vice Mayor Morton clarified those actions would be taken place while Staff continued with the CEQA elements for the remainder of the project.

City Attorney, Gary Baum stated Staff would move forward with CEQA compliance based on Council instruction. He stated it might be necessary to split the CEQA into two pieces; the street level and the tree replacement.

Council Member Espinosa asked how Staff perceived the process taking place with public input.

Mr. Emslie stated the critical decision in making the program work and meeting with seasonal planting was the selection of the final species of the

tree. He stated the process as it was laid out, provided ample time for civic engagement and return to Council in early November with a report and plan on the type of tree, the location for planting and to begin the planting on November 21, 2009.

Mr. Keene added the funding the City had for the overall project was limited and therefore the project had been scaled down from the original design.

Council Member Espinosa asked about the accountability level of the review. He stated the review of the process that led to the incident was equally important to the incident itself.

Mr. Keene stated yes, the report would incorporate the systemic breakdown.

Council Member Schmid asked for clarification on what was considered a City owned tree and he asked for an explanation of the proposed tree policy.

Mr. Emslie stated the policy would be carefully crafted with detailed criteria of what constituted a City owned tree and there would be review parameters for different types of trees.

Council Member Schmid clarified Staff was not attempting to create a single policy prior to the removal of any City owned tree.

Mr. Emslie stated that was correct.

Council Member Kishimoto asked whether there was a phase 1 and phase 2 approach to the California Avenue project.

Mr. Roberts stated in concept yes, there were two phases. He clarified definitively there was only phase 1 while Staff continued to pursue opportunities for grant funding for additional amenities that were not in the current budget, such as the street lighting upgrades.

Council Member Kishimoto asked whether the schedule for repaving was total reconstruction or adding a new layer of asphalt.

Mr. Roberts stated the budget for the street paving portion was an asphalt overlay to the existing street. He stated all of the utility repair work had been completed in advance of the project schedule.

Council Member Burt asked for clarification on page 4 of CMR 400:09 under the heading of (Review Process Changes for Removal of City Trees). He stated there were six bullets where three refer to City trees and the remainder referred to all CIP projects.

Mr. Roberts stated the intent of the language was to apply to CIP projects that were streetscape and tree related.

Council Member Burt asked for clarification if there were public safety issues with trees, would Staff be prohibited from attending to those trees prior to the tree policy being implemented.

Mr. Keene stated Staff would not be prohibited from maintaining City owned trees and ensuring the safety of the public was a priority to the implementation of the policy.

Council Member Burt stated it was mentioned that Canopy would be involved in the implementation of the policy but asked whether the Architectural Review Board (ARB) and the Planning & Transportation Commission (P&TC) would have input.

Mr. Emslie stated the two groups had not been written into the process; however, the intent was for their involvement during the development of the tree policy.

Council Member Burt asked how to bifurcate the tree replacement from the remaining streetscape issues on Californian Avenue.

Mr. Keene stated after the P&TC reviewed the items Staff would presumably have the basis for the CEQA work that was required to continue.

Council Member Burt asked the boundaries between the Planning Department arborist, and the Public Works Department arborist. How do the roles differ from one to the other.

Mr. Roberts stated the role of the Public Works arborist has been the street trees, trees on public property, in parks, community centers, and golf courses. The Planning arborist dealt with trees on private property, in development process and in administering the Heritage Tree Ordinance. He stated the California Avenue project had been primarily a Public Works arborist role; the original arborist had retired during the process of the on-going project.

Council Member Burt asked who the managing arborist was and their role.

Mr. Roberts stated he was unfamiliar with the term of managing arborist as a separate role, however, for this particular situation the managing arborist would be the Public Works arborist.

Council Member Burt asked whether there was an intention to include the Planning arborist in the project moving forward.

Mr. Roberts stated yes, the Planning arborist had begun consulting on the project.

Council Member Burt asked whether there was an evaluation being made on structural soils.

Mr. Roberts stated yes, the soil was being evaluated, and stated the soil in the area was being replaced due to known problems.

Council Member Yeh asked where the trees went after they were removed.

Mr. Roberts stated the removed lumber became the responsibility of the contractor who removed the trees.

Council Member Yeh asked whether Staff imagined the necessity of Boards or Commissions input other than the ARB and P&TC be brought into the process of determining the appropriateness where trees were involved.

Mr. Roberts stated yes, the Historic Resources Board (HRB), in many cases would be involved where historic building projects were interrelated with trees.

Council Member Yeh asked whether there were checklists created to follow projects through in the event of Staff changes.

Mr. Keene stated checklists and schedules were a valid piece for completing projects and maintaining timelines.

Bette Kiernan, 366 South California Avenue, proposed the City create a ritual to assist people in dealing with feelings of distress and anger invoked by the tree removal.

Bill Ross, 2103 Amherst Street, urged the Council to look to an outside resource to review the incident with the tree removal, someone who would have a clear non-bias approach to locating the core issue to what went wrong.

Michael Eager, 1960 Park Boulevard, stated concerns with the California Avenue Area Development Association (CAADA).

Fred Balin, 2385 Columbia Street, stated the path to healing began with maximum transparency and community involvement.

Herb Borock, P.O. Box 632, stated when the Council originally adopted the proposal there was a streamlined process in the development community and to balance preferential treatment there was an improved public notification process implemented. He stated not one notice had been sent to the public following the process previously implemented.

Mark Weiss, 1788 Oak Creek Drive, stated the tree removal was a major concern, although the process of how and why they were removed was the core issue that needed to be brought to light.

John Hackmann, 235 Embarcadero Road, stated reviewing the proposed process was good and clearly necessary but defining what the current process was and how it was supposed to be followed was needed for the community to believe the same mistake would not occur in the future.

MOTION: Council Member Barton moved, seconded by Vice Mayor Morton to: 1) Approve the action plan for community engagement for replacement of street trees on California Avenue, 2) Approve the review process for deciding on other California Avenue Street Improvement which may potentially include new street furniture, street paving and restriping to eliminate one travel lane in each direction, 3) Send Staff recommendation number 3 back to Staff for further review, 4) Direct Staff that it is Council's intention that the trees should be planted this fall/winter 2009, and 5) Staff is to bring back an information item to Council summarizing public comment received at the October 8 public meeting along with recommendations from the ARB and P&TC.

Council Member Barton felt that Palo Alto as a community had tremendously overreacted to the incident. He appreciated the work of City Staff, the apology of the Public Works Director, and the efforts of the City Manager in bringing the report forward. There were some process failures, this was one incident, not a continued line of incidents and processes around tree removal.

Vice Mayor Morton stated he did not want a process where the City Manager spent his time reviewing individual tree removals. The process needed to be broken into what happened, repairing the process, creating a new process to eliminate repeating the errors. The Canopy organization cared for urban forestry and needed to be a part of the new process.

Council Member Burt stated he opposed the Motion. He recalled the University Avenue streetscape had extensive Council review and was fully vetted by the appropriate advisory Commissions. The concept of public notification had decreased over time and needed to be brought back to the forefront. The Construction Debris Ordinance needed to be reviewed to include this type of debris.

Council Member Kishimoto stated she believed the decisions being made moving forward were going to be more ecology based and community oriented. She agreed the holly trees were not the best type of urban forestry for the area and they would have been replaced and the intensity of the reaction of the community was a symptom of a larger concern. She would suggest the advisory Commissions consider permeable paving, drought resistant trees, and swales.

SUBSTITUTE MOTION: Council Member Klein moved, seconded by Council Member Burt to: 1) Approve the Action Plan for community engagement for replacement of street trees on California Avenue, 2) Approve the review process for deciding on other California Avenue Street Improvement which may potentially include new street furniture, street paving and restriping to eliminate one travel lane in each direction, and 3) Direct Staff to prepare recommended actions to ensure that in the future replacement of City-owned trees does not take place without full public involvement and proper City approvals.

Council Member Klein stated the actions taken were a serious error; it was however, a direct violation of existing procedures which resulted in proper outrage of the citizenry. He stated the position of Council was to ensure such things did not occur or were dealt with properly in the event they did occur.

Council Member Burt expressed his agreement with Council Member Kishimoto's views on the green concept, although the steps necessary to accomplish such items belonged in Phase II of the project.

Council Member Schmid asked for clarification between the Motion and Substitute Motion.

Council Member Barton stated the Motion and Substitute Motion were similar with the exception of the Motion indicated the replacement trees would be planted by November of 2009.

Council Member Schmid clarified the Motion had no recommendation for the third recommendation.

Council Member Barton stated the Motion was to send the third recommendation back to Staff and have them return to Council with firm recommendations.

Council Member Burt stated the reason the Substitute Motion did not have a firm date for replacement of the trees was Mr. Coates, an expert arborist, had indicated planting at that time may not be in the best interest of the canopy. He stated the long term life and quality of the canopy needed to be considered.

Council Member Espinosa asked for Staff's thoughts on community meetings with the public.

Mr. Roberts stated that could be accomplished although the timeline for the tree replacement would be significantly altered.

Council Member Espinosa asked whether Staff recommended moving forward with the November planting in the event the Motion passed.

Mr. Roberts stated there was flexibility to the November time frame; however, January and February could still be considered proper season for planting.

Council Member Espinosa stated there was an opportunity to move forward within an appropriate timeline and have community involvement on an expedited timeline. He stated his support for the Substitute Motion.

Council Member Kishimoto requested changes be incorporated into the Substitute Motion to consider green-street concepts such as permeable or less paving.

Council Member Klein asked whether she would consider the language of "within the constraints of the budget".

Council Member Kishimoto stated yes.

INCORPORATED INTO THE SUBSTITUTE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER that the following be added to Staff Recommendation Number 2: And consider green-street concepts such as permeable paving within the constraints of the budget.

Council Member Kishimoto stated the language on page five needed to state "increase Staff and contractor training" since there was a large amount of work performed by contractors.

Mayor Drekmeier spoke highly of the community members who had constructive comments on how to handle the situation, and with the replacement tree planting time and type. He stated his support for the Substitute Motion.

Council Member Schmid requested there be a Council meeting to discuss the California Avenue tree replacement prior to the final decision being made.

INCORPORATED INTO THE SUBSTITUTE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER that on November 16, 2009 an Agenda Item would return to the City Council regarding the trees on California Avenue.

SUBSTITUTE MOTION PASSED: 9-0

Council Member Barton asked whether Staff could estimate the length of the presentation on the budget update.

Mr. Keene stated the presentation should take approximately fifteen minutes.

MOTION: Council Member Burt moved, seconded by Vice Mayor Morton to continue Agenda Item Nos. 23 and 24 to October 26, 2009.

MOTION PASSED: 7-2 Drekmeier, Espinosa no

22. Fiscal Year 2010 Budget Update

No action required by Council

City Manager, James Keene stated Staff would be presenting a preliminary view of the first quarter data which would cover an update of the closing of the Fiscal Year 2009 budget, follow-up on the current budget year, and the long range financial forecast. He stated the Tier II reductions had been identified as strategy in the event the Fiscal Year 2010 goals were unable to be met.

Director of Administrative Services, Lalo Perez stated the focus of the presentation was on Fiscal Year 2010; however, Fiscal Year 2009 will be mentioned. He stated the revenues were on target based on the adjustments made during the budget hearings, he noted the numbers were below prior years especially in the Transient Occupancy Tax (TOT) and Documentary Transfer Tax (DTT) areas as well as the Parking Fines and Building Related Permits were below the adjusted budget. He stated the expenditures were being refined with a higher than expected general liability, workers compensation expenses and lower than expected salary savings.

Deputy Director of Administrative Services, Joe Saccio stated the second quarter sales tax numbers needed to be adjusted in the booking of sales tax receipts which were not reflected properly. He noted the performance indicated the level of revenue down thirteen percent which was better than the prior quarters which reflected fifteen percent. He stated the third and fourth quarter activity were expected to be flat or down compared to prior years. He stated the Mid-Year was expected to need adjustments.

Mr. Perez stated annually the Staff prepared a ten-year long range financial forecast. He stated the labor concessions were not included due to the negotiations not being finalized. The Business License Tax (BLT) was not included awaiting election results. He stated the numbers illustrated included the additional retiree medical costs increase assumption starting in FY 2012, the library operational costs, and at present time there was not firm numbers for infrastructure costs.

Mr. Keene stated there was a projected deficit in FY 2010 of \$2.427 million driven by the State borrowing revenues. He stated the numbers were embedded with the \$3 million in salary savings which was being pursued with the various labor groups in the City. In the event the negotiations do not materialize then there would be the \$3 million added to the deficit. He

stated presuming the budget was balanced in FY 2010 there was a deficit of \$3.4 million in the FY 2011 budget. In FY 2014 the deficit would grow to \$9 million.

Council Member Barton asked whether the deficit numbers were being cumulative in the presentation.

Mr. Perez stated yes, if the budget was balanced in FY 2012 the deficit shown would decrease by the amount balanced.

Council Member Barton asked whether the budget numbers shown assumed the Business License Tax.

Mr. Perez stated no.

Mr. Keene stated the General Fund was facing economic challenges. The decision was made by Council during this very difficult economic environment to not balance the budget by reducing programs and services which would have resulted in lay-offs. He clarified, in the event Staff was unsuccessful in balancing the budget the decision to not cut programs and services would need to be revisited.

Mr. Perez summarized the Tier II items discussed previously would be in discussion at the November Finance Committee meeting if the negotiations with labor did not go as planned.

Robert Moss, 4010 Orme Street, stated the community had not had an opposition to new businesses entering into the city as stated in the Staff report. He stated the deficits estimated were below the deficit the City was currently in; the highest expense in the budget was City Staff.

John Hackmann, 235 Embarcadero Road, stated closing the pension on an annual basis was a way to control the cost and benefit of the fund. He stated spending was the largest issue in the City; more funds were being spent then were being generated.

Council Member Espinosa asked for clarification on the \$450 million backlog in the infrastructure.

Mr. Perez stated the backlog through FY 2028 for streets, sidewalks, bridges, parks, open space, City buildings and other facilities was approximately \$302 million, additional facilities as the Municipal Services Center (MSC) and the fire stations calculate the remainder of the \$450 million.

Council Member Espinosa asked whether the public safety building was included in the infrastructure funding.

Mr. Perez stated no, the public safety building was not included.

Council Member Espinosa stated it appeared the timeline for repairs and maintenance was not being decreased.

Mr. Perez stated the infrastructure program needed to be improved and the projects needed to be prioritized.

Council Member Espinosa asked whether lower bids for fees on the request for proposal (RFP) projects were being seen and what Staff recommendations were on infrastructure if we could see significant savings.

Mr. Perez stated the topic had been of major discussion during the budget hearings with the Finance Committee and staffing was a concern given the large initiatives.

Council Member Espinosa stated he understood there would be a major overhaul in staffing as far as where they were placed and the duties performed. In order to accommodate the cost savings of the lower bids on a major infrastructure project, Staff would need to be restructured to complete the project which would impact services in other programs.

Mr. Keene stated that was correct. He noted it was possible to borrow funds or issue Certificates of Participation (COPs) in order to accelerate projects due to lower cost trends.

Mr. Perez stated investment bankers had come up with a creative bond issue where you borrow against future allocations of gas taxes which went directly to the street improvement programs.

Council Member Espinosa asked for clarification on salary savings and expenses.

Mr. Perez stated assumptions were made to determine what the salary savings would be and those numbers would be refined as the year progressed. He stated unfortunately the numbers turned out not to be as high as expected.

Mr. Keene stated the salary savings were the numbers Staff had hoped to achieve with the vacancy control during the prior year. Unfortunately there were miscalculations made plus additional overtime costs from the Police and Fire Departments. A higher than expected workers compensation cost may impact the next few years trying to absorb a one-time \$4 to \$5 million dollar gap.

Council Member Klein asked where the City was in the process of receiving the stimulus funds.

Mr. Perez stated the stimulus funding was not included in the financial forecast and he was uncertain as to the current status.

Council Member Klein asked whether Staff believed the stimulus funds would be available for the public safety building.

Mr. Perez stated no, but it was being explored.

Council Member Klein asked whether there were other programs that should be considered under the Tier II.

Mr. Perez stated the City needed to reconsider how it dealt with business on long term capacity, and make a stronger consideration for private/public partnerships.

Mr. Keene stated until the revenue stream improved or new revenues were found there were going to be financial challenges.

Council Member Schmid asked whether each year of the budget had a deficit.

Mr. Perez stated yes.

Council Member Schmid stated the report showed a seventy percent increase in property tax revenue over the next five to seven years which appeared to be the anticipation of a housing boom; he asked whether that was what was being forecasted.

Mr. Perez stated eighty percent of the assessed evaluation was from 2000 and back, meaning there was a twenty percent exposure from the current year. He clarified approximately seventy percent of the assessment was from residential.

Council Member Schmid asked for clarification that the rate of increase for the retiree contribution was 7.75 percent.

Mr. Perez stated yes, the number received from CalPERS was the miscellaneous group was going up by 6.9 percent, the safety group by 11.4 percent which they figured over a four year period with the assumption that they would earn the target of 7.75 percent.

Council Member Schmid stated the retiree medical cost increase was flat at \$700 million.

Mr. Perez stated the retiree medical assumption did not include the longer term savings of the change in the vesting period.

Council Member Schmid stated there were three elements which might be underestimated; the healthcare costs, retirement contribution, and the property tax forecast.

Mr. Perez stated that was why it was so important to maintain a healthy reserve policy to counter balance the impending deficit from the unknown factors.

Vice Mayor Morton stated the budget needed to be balanced prior to the close of each year; if the new year began with a deficit each year the City would never regain financial security. He stated there needed to be strong action taken against the deficit in all areas of programs, services, and labor.

Council Member Yeh asked what efforts could be taken to bring in additional revenue.

Mr. Perez stated there had been joint efforts with the City Auditor in terms of hotel tax and sales tax revenues and Staff could discuss the review of other opportunities.

Council Member Yeh asked the delinquency rates for citations.

Mr. Perez stated the process was to report habitual offenders to the Department of Motor Vehicles (DMV). The offenders were not able to renew their vehicle registration until the tickets were taken care of; the threshold was five citations. He stated all of the revenues needed to be reviewed and reported to Council with recommendations on cost recovery levels for various fees.

Council Member Yeh asked the reason for the \$3 million increases in contract services between FY 2008 and FY 2009.

Mr. Perez stated the main cause was built-in inflators, there was no specific contract causing the increase.

Council Member Yeh asked why the report showed there being a decrease of over \$3 million in FY 2010 if there were built-in inflators.

Mr. Perez stated he would return with a more detailed response.

Council Member Yeh asked whether Staff had looked into city-wide renegotiations on existing contracts with on-going services or projects in order to achieve cost savings.

Mr. Perez stated there were minimal savings with the service oriented contracts. The Purchasing Department had been requested to review the contracts in an effort to ensure flexibility, especially in those with built-in inflators.

Council Member Yeh asked for clarification of the drivers behind General Liability and Workers Compensation.

Mr. Perez stated with the General Liability there had been unexpected significant pay-outs, and with Workers Compensation the cases were down although the healthcare costs had risen.

Council Member Barton asked the likelihood of the retirement contribution system collapse and how damaging to the state economy would a collapse be. He asked whether we needed to be working with other cities or PERS proactively to avoid a systemic meltdown in the near future.

Mr. Keene stated the data was there which had led to the City of Santa Clara taking policy positions, the City Managers' group in San Mateo County and in the San Diego area were preparing for unsustainable commitments. He stated any intervention made would not be pleasant and the community would feel the impacts.

Council Member Barton stated the City needed to set forth a formalized and public process to prioritize the services in preparation for severe cuts.

Council Member Kishimoto asked how much of the increase from \$1 million to the \$5.4 million of the PERS contribution was from the 2.7 at age 55 versus the portfolio.

Mr. Perez stated PERS did not provide a break-down of cost increase to that level of detail. He stated retrieving information from PERS had been difficult lately due to their organizational challenges.

Council Member Kishimoto stated a conservative thought would be to reduce the long-term costs by reduction or depletion of programs such as the traffic team and the shuttle service. The City needs to weigh all costs and get to a sustainable budget.

UNFINISHED BUSINESS

~~23. Policy & Services Committee Recommendation to Continue the Open City Hall Online Forum~~ *(Continued by Council Motion on September 21, 2009)*

~~24. Colleague's Memo from Council Members Kishimoto, Klein, and Yeh Regarding Directing the City Manager to Explore Ways to Reduce Potable Water Use in Palo Alto by 20 Percent by 2020~~
(Continued by Council Motion on September 21, 2009)

COUNCIL COMMENTS, ANNOUNCEMENTS, AND REPORTS FROM CONFERENCES

Council Member Yeh advised that he attended the annual conference of the Northern California Power Agency two weeks ago. He also thanked the Community Services Director and recreation team for supporting the Moon Festival two weeks ago.

Council Member Kishimoto spoke about the successful High Speed Rail workshop this past weekend. She also reported that she recently attended a Dumbarton Rail meeting.

Vice Mayor Morton spoke about the accolades City Attorney Gary Baum received last Wednesday when he received his award for the volunteer work.

Mayor Drekmeier reported on attending a press conference in San Jose regarding plastic bag ban, and Palo Alto received great praise for our policy. He was also contacted by the Chicago Tribune regarding our polystyrene ban.

Council adjourned to the Closed Session at 11:52 p.m.

CLOSED SESSION

25. CONFERENCE WITH LABOR NEGOTIATORS

Agency Negotiator: City Manager and his designees pursuant to Merit System Rules and Regulations (James Keene, Kelly Morariu, Russ Carlsen, Sandra Blanch, Darrell Murray, Marcie Scott, Lalo Perez, Joe Saccio)

Employee Organization: Local 521 Service Employees International Union

Authority: Government Code Section 54957.6(a)

Mayor Drekmeier advised no reportable action taken.

ADJOURNMENT: The meeting adjourned at 1:00 a.m.

ATTEST:

APPROVED:

City Clerk

Mayor

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