

CITY OF PALO ALTO CITY COUNCIL MINUTES

Special Meeting April 7, 2014

The City Council of the City of Palo Alto met on this date in the Council Conference Room at 6:05 P.M.

Present: Berman, Burt arrived at 7:55 P.M., Holman, Klein, Kniss, Price,

Scharff, Schmid, Shepherd

Absent:

Public Art Commissioners

Present: Collins, Kavanaugh, Miyaji, Richter, Ross, Usich

Absent: Tobak

STUDY SESSION

1. Study Session with the Public Art Commission.

The Public Art Commission showed images of projects that have been installed since the last joint meeting, including artworks at the Mitchell Park Library and Community Center, Hoover Park, Juana Briones Park, and temporary artwork on King Plaza. The Commissioners also shared the updated web pages and online database. The Commission discussed some of the projects that are in process, such as a new media artwork for the City Hall Lobby, art at the Main Library and Art Center Campus, and the water feature on California Avenue. Then the Commission highlighted some details and inspiration behind the upcoming public art master planning process, including images of diverse types of artwork that the City may want to consider taking on with the passage of percent for art ordinance in private presentation development. Discussions with Council following the incorporated diverse topics, including: art in parking structures, temporary public art, and public art tours.

SPECIAL ORDERS OF THE DAY

2. Proclamation National Crime Victims Week.

Council Member Price read the Proclamation into the record.

Zhazil Gurbiel, Victim Advocate, commended the Council for recognizing crime victims' rights. The Victim Witness Assistance Program was thankful for ongoing support of victim services.

3. Selection of Applicants to Interview on April 16, 2014 for the Public Art Commission, Library Advisory Commission and the Human Relations Commission.

MOTION: Council Member Price moved, seconded by Council Member Berman to interview all applicants.

MOTION PASSED: 8-0 Burt absent

Council Member Schmid referenced an at-places memorandum regarding acceptance of a résumé and inquired whether it was a part of the Motion.

Donna Grider, City Clerk, indicated the application was included in the process, and she would schedule an interview.

AGENDA CHANGES, ADDITIONS AND DELETIONS

Mayor Shepherd announced Agenda Item Number 10: Budget Amendment Ordinance in the Amount of \$880,271 to CIP SD-10101, Offset by a Reduction to CIP SD-06101, and Approval of a Contract with Ranger Pipelines, Inc. in the Amount of \$1,516,610 for the Southgate Neighborhood Storm Drain Improvement and Green Street Project, Capital Improvement Program Project SD-10101, was removed from the Consent Calendar and became Agenda Item Number 18a.

Council Member Scharff inquired if a Council Member moved for Agenda Item Number 10 to be removed from the Consent Calendar.

Mayor Shepherd reported she and the City Manager moved it to an Action Item.

Council Member Scharff did not believe that was proper Council procedure.

James Keene, City Manager, stated the City Manager or three Council Members could remove an item from the Consent Calendar.

Molly Stump, City Attorney, concurred with the City Manager.

MOTION: Council Member Berman moved, seconded by Council Member Holman to continue Agenda Item Number 20: PUBLIC HEARING: TEFRA Hearing Regarding Conduit Financing for the Stanford Affordable Apartments Project Located at 2450, 2470 AND 2500 El Camino Real Palo Alto, and Approving the Issuance of Revenue Bonds by the California Municipal Finance Authority for the Purpose of Financing the Acquisition, Construction and Development of a Multifamily Rental Housing Facility (Staff requests this item be continued to a date uncertain) to a date uncertain.

MOTION PASSED: 8-0 Burt absent

CITY MANAGER COMMENTS

James Keene, City Manager, reported later in April the San Francisco Public Utilities Commission (SFPUC) would update water reduction requirements. The City launched several new water conservation initiatives. The Santa Clara Valley Water District awarded a \$100,000 grant to Palo Alto to develop two new water programs. The Art Center would present the free Spring Family Day on April 13, 2014. Development Services partnered with TextaZine to pilot a new text-based communication tool for construction projects. The Office of Emergency Services posted new public education and training opportunities to the City's website. On March 24-25, 2014, Fire Chief Nickel represented the City in a national project development conference. Because of the above-normal potential for wildfires, fire crews were training for an early start to the fire season. County Fire Chiefs and overhead support team were planning for the annual county-wide wildland drill in June 2014.

ORAL COMMUNICATIONS

Noah Galper suggested renovation of the grassy area in Rinconada Park include ping pong tables. Ping pong tables were available at the Mitchell Park Teen Center, but only during hours the center was open. He estimated the total cost for three ping pong tables and concrete pads would be \$50,000.

Wynn Greich invited the public to attend a meeting regarding chem trails scheduled for August 16, 2014. Chemicals were destroying forests and plants. Videos were available for viewing on YouTube.

David Mackenzie, Chamber of Commerce CEO, thanked the Council for its support and presented the City with its membership certificate. The Chamber reinstituted the Leadership Program in 2012 with the City's assistance. He announced recipients of Tall Tree Awards.

Marcus wished to understand the definition of cigarette as defined by a

hearing, walking people.

William Ross raised the issue of availability of materials regarding the Mayfield housing hearing before the Architectural Review Board (ARB) on March 20, 2014. He suggested the Council direct Staff to reschedule the hearing as there was a violation of the Brown Act. The public was not provided with the same documents as the decision-making body.

Council Member Holman requested clarification regarding conditions not being made available to the public.

Mr. Ross indicated proposed conditions to be heard by the ARB at the hearing were not available to the public through the website. There was a violation of the Brown Act resulting in prejudice.

MINUTES APPROVAL

MOTION: Council Member Schmid moved, seconded by Vice Mayor Kniss to approve the minutes of February 10, 2014 and March 3, 2014.

MOTION PASSED: 8-0 Burt absent

Mayor Shepherd reviewed the Agenda for the evening.

CONSENT CALENDAR

MOTION: Council Member Price moved, seconded by Council Member Berman to approve Agenda Item Numbers 4-9, 11-18.

- 4. Policy and Services Committee Recommendation to Accept the Auditor's Office Quarterly Report as of December 31, 2013.
- 5. Approval of a Five-Year Contract with Oracle America, Inc., for Software Program Technical Support Services in the Amount not to Exceed \$563,600.
- 6. Budget Amendment Ordinance 5240 entitled "Budget Amendment Ordinance of the Council of the City of Palo Alto in the Amount of \$2,257,200 and Approval of Wastewater Treatment Enterprise Fund Contract with Anderson Pacific in the Total Amount of \$2,052,000 for the DMF Optimization & Secondary Clarifiers Improvement Project at the Regional Water Quality Control Plant CIP WQ-80021 Plant Equipment Replacement."
- 7. Finance Committee Recommendation to Accept the Inventory Management Audit.

- 8. Approval of Wastewater Treatment Enterprise Fund Contract with Monterey Mechanical Co. in the Total Amount of \$374,100 for the Secondary Clarifier Number 1 Mechanism Replacement Project at the Regional Water Quality Control Plant Capital Improvement Program Project WQ-80021.
- 9. Resolution 9399 entitled "Resolution of the Council of the City of Palo Alto Approving Amendment No. 1 to the 2009 California Oregon Transmission Project Long-Term Layoff Agreement to Authorize the City of Roseville's Withdrawal and Provide the City of Palo Alto with Voting Rights on Project Improvements and Financing."
- 10. Budget Amendment Ordinance in the Amount of \$880,271 to CIP SD-10101, Offset by a Reduction to CIP SD-06101, and Approval of a Contract with Ranger Pipelines, Inc. in the Amount of \$1,516,610 for the Southgate Neighborhood Storm Drain Improvement and Green Street Project, Capital Improvement Program Project SD-10101.
- 11. Consideration of an Appeal of the Director's Individual Review Approval of a Two-Story, Single Family Home Located at 4055 Second Street.
- 12. Approval of a Contract Amendment to S13148916 with AECOM for Consulting Services in the Amount of \$21,500 to Complete a Risk Assessment for Hazardous Materials at Communications and Power Industries (CPI) located at 607-811 Hansen Way.
- 13. Recommendation from the Council Appointed Officers Committee (CAO Committee) that Council Exercise an Option to Extend for One Year a Consulting Contract with Sherry L. Lund Associates for a Total Cost Not to Exceed \$58,161 for: 1) Consulting Services related to the 2013-2014 Annual Performance Reviews for Three Council Appointed Officers for a Total Cost Not to Exceed \$31,588; 2) Mid-year Performance Review Updates for a Total Cost Not to Exceed \$8,003; 3) Solicitation of Staff Feedback Related to Performance Evaluations for a Total Cost Not to Exceed \$10,070; 4) As Needed Consulting Services for Compensation, Organizational Development and Human Resources Consulting for a Total Not to Exceed Cost of \$6,000; and 5) Additional Services for a Total Cost Not to Exceed \$2,500; and Authorize Use of Council Contingency Funds of Up to \$50,000 for Necessary Work Before July 1, 2014.
- 14. Approval of Purchase Order for Annual Computer Replacement Equipment with Golden Gate Systems, LLC in the Amount of \$422,231.
- 15. Approval of Amendment No. 1 To Compucom Contract No. C12144913 In An Amount of \$50,000 plus a 10% contingency for unforeseen

expenses for Microsoft Azure Services Until June 2015 for additional disaster recovery for file services.

- 16. <u>Park Improvement Ordinance 5241</u> entitled, "Park Improvement Ordinance of the Council of the City of Palo Alto for the Design of the Scott Park Capital Improvement Project (First Reading: March 17, 2014 PASSED: 8-0 Price absent)"
- 17. Approval of a Water Enterprise Fund Contract with URS Corporation in the Total Amount of \$1,009,854 for the Design and Construction Management Services for Coating and Seismic Upgrades of Four Existing City Reservoirs and Rehabilitation of Three Receiving Stations, Project WS-07000, WS-08001 and WS-09000.
- 18. Appointment of City Auditor and Approval of Employment Agreement.

MOTION PASSED: 8-0 Burt absent

Council Member Scharff introduced Harriet Richardson as the new City Auditor.

Mayor Shepherd indicated Ms. Richardson formerly worked with the City of Berkeley. Ms. Richardson had a broad background in auditing.

Harriet Richardson, City Auditor, reported the City's Office of the Auditor was well-known across the country. She hoped to implement audits that helped the Council with policy decisions. She was pleased to have been selected as City Auditor.

Council Member Holman welcomed Ms. Richardson to Palo Alto and thanked Houman Boussina for acting as City Auditor.

18a. (Former Agenda Item No.10) <u>Budget Amendment Ordinance 5242</u> entitled "Budget Amendment Ordinance of the Council of the City of Palo Alto in the Amount of \$880,271 to CIP SD-10101, Offset by a Reduction to CIP SD-06101, and Approval of a Contract with Ranger Pipelines, Inc. in the Amount of \$1,516,610 for the Southgate Neighborhood Storm Drain Improvement and Green Street Project, Capital Improvement Program Project SD-10101."

Mayor Shepherd recused herself from the item as she lived in the Southgate neighborhood.

Vice Mayor Kniss noted the item was removed from the Consent Calendar.

James Keene, City Manager, reported the City was moving into the final phases of the project.

Council Member Klein recalled his involvement with the Citizens Advisory Committee and the campaign for the measure. The Southgate project was the last of the original seven projects. The City was completing projects as originally intended and within budget.

MOTION: Council Member Klein moved, seconded by Council Member Price to accept Staff recommendation to:

- 1. Adopt the attached Budget Amendment Ordinance (BAO) (Attachment A) in the amount of \$880,271 for the Southgate Neighborhood Storm Drain Improvement and Green Street Project (SD¬-10101) to increase the project appropriation from \$1,085,839 to \$1,966,110, offset by a reduction to Storm Drain System Replacement and Rehabilitation Project (SD-06101) by \$880,271, reducing the appropriation from \$1,680,974 to \$800,703; and
- 2. Approve and authorize the City Manager or his designee to execute the attached contract with Ranger Pipelines, Inc. (Attachment B) in the amount of \$1,516,610 for the Southgate Neighborhood Storm Drain Improvement and Green Street Project, Capital Improvement Program Project SD¬-10101; and
- 3. Authorize the City Manager or his designee to negotiate and execute one or more change orders to the contract with Ranger Pipelines, Inc. for related, additional but unforeseen work which may develop during the project, the total value of which shall not exceed \$151,661.

MOTION PASSED: 7-0 Burt absent, Shepherd not participating

ACTION ITEMS

19. PUBLIC HEARING: TEFRA Hearing Regarding Conduit Financing for the Stevenson House Project Located at 455 East Charleston Road Palo Alto, and Resolution 9400 entitled "Resolution of the Council of the City of Palo Alto Approving the Issuance of Revenue Bonds by the California Municipal Finance Authority for the Purpose of Financing the Acquisition and Rehabilitation of a Multifamily Rental Housing Facility."

Mayor Shepherd reported the City was required by law to conduct the Public Hearing on behalf of the financing authority in order to allow public input on the project. The City was limited in its role in the project, and City funding was not involved in the project.

Joe Saccio, Assistant Director of Administrative Service, explained that a local nonprofit agency wished to issue tax exempt bonds. Under the Tax Equity and Fiscal Responsibility Act (TEFRA), the City was required to hold a

Public Hearing and pass a Resolution on behalf of the agency. The City of Palo Alto had no financial, moral, or legal obligation for the bonds.

Public Hearing opened at 7:45 P.M.

Phyllis Cassel, Stevenson House Board of Directors President, hoped the Council would pass the Resolution.

Public Hearing closed at 7:45 P.M.

MOTION: Council Member Holman moved, seconded by Vice Mayor Kniss to adopt the Resolution approving the issuance of the bonds by the California Municipal Finance Authority for the benefit of Palo Alto Senior Housing Project, Inc. Stevenson House LP.

Council Member Holman appreciated Stevenson House's service to the community in providing affordable housing. The Stevenson House commitment was long-term.

Council Member Schmid inquired about the seller of the property.

Lydia Tam, Related Companies of California, indicated the property was owned by Palo Alto Senior Housing Project (PASHP). PASHP would sell the building to the new Stevenson House partnership. PASHP would continue to own the land and ground lease it to the partnership.

Council Member Schmid referenced the City's agreement with the original owner regarding senior, low-income housing. The Staff Report indicated all or a portion of the rental units would be rented at low-income rates. He asked if the City's agreement with the original owner was no longer in force.

Ms. Tam reported the incomes of a few long-time residents had increased over time. There was no requirement that those residents be asked to leave, and owners did not wish to displace any current residents. As residents moved away, Stevenson House would return to compliance with respect to income.

Council Member Schmid asked if the City's agreement with the original owner would remain in effect until 2060.

Ms. Tam responded yes.

MOTION PASSED: 8-0 Burt absent

20. PUBLIC HEARING: TEFRA Hearing Regarding Conduit Financing for the Stanford Affordable Apartments Project Located at 2450, 2470 AND 2500 El Camino Real Palo Alto, and Approving the Issuance of Revenue

Bonds by the California Municipal Finance Authority for the Purpose of Financing the Acquisition, Construction and Development of a Multifamily Rental Housing Facility (Staff requests this item be continued to a date uncertain).

21. From Policy and Services Committee: Staff Requests Direction From Council on the Naming of the Main Library and Colleagues' Memo from Council Members Klein and Price Regarding the Renaming.

Vice Mayor Kniss, 2013 Chairperson of the Policy and Services Committee, reviewed the procedure for renaming public facilities and the requirements for a name. The Main Library was located on land where the original City was developed. The land was also part of the original Rancho Rinconada land tract. In September 2013, the Library Advisory Commission (LAC) voted unanimously to rename Main Library to Rinconada. The Palo Alto Historical Association (PAHA) confirmed the accuracy and appropriateness of the name Rinconada. In December 2013, the Policy and Services Committee voted 2-2 on the issue. In February 2014 the LAC again voted unanimously on the name Rinconada. Possible names were Main and Rinconada.

Council Member Klein requested Council Members with an opposing viewpoint be allowed to speak at the current time.

Mayor Shepherd granted the request.

Council Member Klein indicated the procedures for naming City facilities varied and mentioned King Plaza as an example. On September 9, 2013, the Council voted to refer renaming of Main Library to the Policy & Services Committee with directions for the members to work with PAHA to recommend a name of a distinguished person in Palo Alto history or to recommend the continued use of the name Main if an appropriate individual could not be determined. That was the relevant policy of the Council.

Mayor Shepherd noted five Council Member votes were needed to effect a change in name.

Robert Moss, Library Advisory Commission, reported the LAC spent a great deal of time discussing the issue and received input from Library Staff, PAHA, and the public. With the exception of Main Library and Children's Library, libraries were named for their locations. The LAC determined the name Rinconada was historically important and associated with facilities in the adjacent neighborhood. He urged the Council to accept the LAC's recommendation.

Jeremy Erman asked the Council not to rename Main Library. The City seemed intent on turning Main Library into just another branch. Under the

bond measure, Palo Alto would not have a single full-service library. He wished to see Main Library's space and collections expanded.

Jonathan Erman urged the Council not to change the name of Main Library. Main Library was never a full-service library; however, coupled with Children's Library it was a full-service library. He supported a strong library collection and system. He suggested the name Historical Main Library.

Jean Libby supported renaming Main Library to Rinconada Library. The Spanish word rinconada meant a meeting of corners. Her husband worked at Main Library for approximately 40 years.

Vice Mayor Kniss requested Ms. Libby restate her definition of rinconada.

Ms. Libby indicated it meant corners, street corners.

Sarah Harold Boyd reported a library was a valuable resource for learning, study, and research. Doris Richmond played a large role as a librarian and advocate for education. The Middlefield Library should be renamed for Ms. Richmond.

Mary Beth Train urged the Council to accept the name of Rinconada as any other name would be confusing.

Patricia Powell believed institutions should be named for people involved in those institutions. Newell Library should be renamed in honor of Doris Richmond. Ms. Richmond was a librarian and a legacy in the community.

Herb Borock supported the name Main Library. The Council's direction in September 2013 did not change the City's policy for naming and renaming City facilities. The policy indicated existing place names were deemed to have historic recognition. There was no compelling reason to change the name of Main Library.

Mary Jo Levy supported changing the name of Main Library to Rinconada Library. Complications from renaming Main Library for a prominent person were covered by reports from the LAC, PAHA, and Staff. Connotations of the name Main indicated it was located in a downtown area, which was not true in Palo Alto. A place name was simpler and associated the facility with its physical location.

Susie Thom believed the Council should rename Main Library to Rinconada Library, because the naming policy was followed, the LAC recommended the change, and Rinconada corresponded to the tradition for naming libraries. The Council should adopt the name Rinconada.

Eileen Landauer, speaking as an individual, preferred the name Main Library; however, the name no longer fit the facility. This was an opportunity to thank all those individuals who made the new library possible.

Martin Bernstein, speaking as an individual, felt it would be confusing to name Main Library for Birge Clark when the building was designed by another architect. The Post Office was a more appropriate facility to name for Mr. Clark as he designed it.

Loretta Green supported naming a library in honor of Doris Richmond. Ms. Richmond was synonymous with Palo Alto's libraries and valued the importance of research. She was the first African-American employee of the City's library system. Thousands of Palo Alto residents benefited from her broad knowledge, enthusiasm, and encouragement.

Alison Cormack asked the Council to rename Main Library to Rinconada Library. Main Library and Mitchell Park Library should be named in a parallel manner. There was no reason to rename Main Library for a person who was not connected with the facility or services provided therein. Retaining the name Main Library, which was located in north Palo Alto, would contribute to the perception that more services were available in north Palo Alto than in south Palo Alto.

Leonardo Hochberg, Library Advisory Commission Chairperson, did not believe the name Main Library was deliberately chosen for the facility. The Council had the opportunity to make a deliberate decision regarding the name. The name Rinconada was appropriate and historically accurate.

Mayor Shepherd noted the Policy & Services Committee did not provide a recommendation as directed by the Council.

Molly Stump, City Attorney, reported the Council had full discretion to discuss the topic as the referral procedure was followed. As a policy matter, the Council could discuss names suggested by members of the public or contained within the Staff Report as well as other names.

MOTION: Council Member Price moved, seconded by Council Member Klein to rename the Main Library in honor of Birge Clark

Council Member Price indicated Birge Clark was responsible for hundreds of buildings located throughout Palo Alto and Stanford University. Mr. Clark was a major contributor to the definition of the Bay Area's primary building styles. He had a significant impact on the architectural character of Palo Alto. She named several of Mr. Clark's projects. Mr. Clark served on the Historic Resources Board. Mr. Clark's legacy was significant. During his 22 years at Stanford University, Mr. Clark influenced the design sensitivities,

aesthetics, and architectural practices of scores of architects. This was an appropriate opportunity to honor the significant contributions of Birge Clark.

Council Member Klein was pleased that more residents now agreed the library on Newell Road should be renamed. He wished to rename Main Library in honor of a distinguished Palo Alto resident. He had hoped residents would suggest names of individuals. Palo Alto's history contained many individuals who should have facilities named after them. Mr. Clark would be the first graduate of Palo Alto schools to be honored by Palo Alto. Mr. Clark helped create a significant portion of the community to which residents related daily. The City frequently honored individuals by naming buildings and parks for them, even though the individuals had no direct association with the buildings and parks. Naming the library for the neighborhood dramatically underestimated the intelligence of citizens. He could accept naming a facility for Doris Richmond. Naming the Post Office for Mr. Clark was dependent upon the City's purchase of the building. Naming a facility for Mr. Clark honored his lifetime of work, not his design of one building.

Vice Mayor Kniss concurred with Council Member Price's comments regarding Mr. Clark. However, Main Library was not the appropriate building to name for Mr. Clark. It would be more appropriate to rename Main Library for Edward Durell Stone, who designed the building. Ms. Cormack's reasons for renaming Main Library were compelling. Using the name Rinconada Park provided a sense of place. The LAC was adamant in its choice of Rinconada Library and had substantial reasons for choosing that name. She could support the names Main Library or Rinconada Library, but could not support Birge Clark Library.

Council Member Burt would have been receptive to naming the library after a renowned Palo Alto resident if the person satisfied two of the requirements. The community seemed to have reached consensus regarding the name Rinconada Library. The name should follow the City's naming policies and procedures. If the community reached consensus regarding an individual after whom a building should be named, then he could support that.

SUBSTITUTE MOTION: Council Member Burt moved, seconded by Council Member Holman to rename the Main Library to Rinconada Library.

Council Member Holman could support retaining the name Main Library, as it was not inappropriate. The first and fifth criteria for renaming facilities supported renaming Main Library to Rinconada Library. Birge Clark was considered Palo Alto's preeminent architect. It would be exceedingly confusing to name an Edward Durell Stone building after Birge Clark. She

did want to honor Doris Richmond and the Wymans for their contributions to Palo Alto.

Council Member Schmid believed the name Rinconada provided a geographical setting for the library and resonated with street and area names.

Council Member Scharff agreed that naming an Edward Durell Stone building after Birge Clark was inappropriate; their styles were disparate. He did not have a strong preference for either Main or Rinconada. The community appeared to have coalesced around Rinconada. The LAC provided good reasons for using the name Rinconada Library.

Council Member Berman appreciated public comments regarding the individuals who played large roles in the library system. The LAC's work was thoughtful, thorough, logical and reached the correct conclusion. He supported the Substitute Motion.

Mayor Shepherd would support the Substitute Motion. The name Rinconada Library aligned with the names of other library branches. She did not follow the logic in naming Main Library for Birge Clark. She expressed regret that there was a lack of understanding of the City's policy for naming and renaming facilities.

SUBSTITUTE MOTION PASSED: 7-2 Klein, Price no

Council took a break at 9:04 P.M.

22. Finance Committee Recommendation to Approve the Fiscal Years 2015 to 2024 General Fund Long Range Financial Forecast.

Council Member Klein noted the title of the Agenda Item was incorrect. The Council's action should be to accept the Long Range Financial Forecast (LRFF).

James Keene, City Manager, concurred. Staff should retain independence and autonomy in generating the LRFF.

Mayor Shepherd indicated the recommended Motion would be for the Council to accept Fiscal Years 2015 to 2024 General Fund Long Range Financial Forecast.

Walter Rossmann, Director of Management and Budget Office, recalled the LRFF was initially presented to the Finance Committee on February 18, 2014, and the Finance Committee accepted the LRFF. The LRFF marked the beginning of the Fiscal Year (FY) 2015 Budget planning process. It allowed Staff and the Council to understand long-term results of past decisions and

to identify issues that must be addressed. It was not a prediction of a commitment of resources; rather, it was a reasonable snapshot of the City's future financial condition based on various assumptions and currently available data. Staff was currently projecting a \$1.3 million surplus for FY 2015 and a \$4.4 million annual surplus for FY 2016. After funding the Budget Stabilization Reserve (BSR), the cumulative surplus would be approximately \$38 million over the ten-year period. The net operating margin demonstrated year-over-year surpluses and deficits within the LRFF. The cumulative net operating margin was far smaller throughout the forecast period, and was approximately \$7.6 million. The LRFF did not include assumptions regarding labor negotiations; an updated healthcare plan actuarial valuation; impacts from the Palo Alto Airport other than the expected General Fund annual loan of \$300,000; valuations of the third tier of the pension plan; the healthcare federal excise tax; increased revenue from the Transient Occupancy Tax and impacts from the Golf Course Reconfiguration Project or potential acquisition of the Post Office. The LRFF assumed continuation of the fire service contract with Stanford University. Staff assumed a performing economy as part of the LRFF. Revenues from Transient Occupancy Tax and documentary transfer tax outpaced current FY 2015 projections. Consistent with the last LRFF, Staff applied a compound annual growth rate (CAGR) to forecast major tax revenues. The CAGR was based on 20 years of historical data. Staff projected higher receipts from property tax; and reduced the FY 2015 projection for sales tax as one vendor changed its sale models. Because of new hotels opening and a higher average room rate, Staff projected increases in the Transient Occupancy Tax in FY 2015 and 2016, with a return to historical growth rates thereafter. Revenues from the utility users tax (UUT) would remain stable. Staff projected documentary transfer tax increases would continue in FY 2015. The number of property transactions and the high growth in average values could slow; therefore, Staff assumed a reduction in revenue growth in FY 2016. Staff increased position costs on a per employee basis based on Memorandums of Agreement (MOA) with bargaining groups, and made onetime adjustments in FY 2015 from the FY 2014 Adopted Budget. The out year projections for the LRFF assumed a 2 percent annual growth for salaries. The LRFF also included the latest projections from the California Public Employees' Retirement System (CalPERS) regarding mortality assumptions and changes in valuation method. Staff assumed an 8 percent annual growth in healthcare expenditures; all expenses were based on a 20year historical Consumer Price Index (CPI) for the area. Overall salary and benefits were projected to increase by 35 percent over the forecast period. Salary alone increased by 19 percent while benefits increases were projected to increase by 60 percent. In FY 2015 the City was required to pay a CalPERS contribution rate of 39.5 percent for Public Safety Employees. By the end of the forecast period, the contribution rate would increase by 50 percent to 59.2 percent. For Miscellaneous Employees, the contribution rate

14

April 7, 2014

escalated from 26.1 percent in FY 2015 to 33.4 percent by the end of the forecast period. Currently, 20 percent of all active employees were in Tier 2 or Tier 3 of the pension plan. An alternative model assumed annual debt service of approximately \$2.5 million for funding a Public Safety Building. The debt service amount would immediately reduce the net operating margin in FY 2016 to \$0.6 million. Staff projected the City would end FY 2014 with a surplus in excess of \$4 million, primarily due to higher than anticipated revenues. Staff would recommend transferring the \$4 million surplus to the Infrastructure Reserve.

Council Member Berman reported the Finance Committee held a robust conversation regarding the LRFF. The Finance Committee questioned the lack of an identifiable impact from a recession in the LRFF. Staff explained they used the CAGR for the last 10 and 20 years in projections; therefore, impacts from a possible recession were included. At the Finance Committee's request, Staff added to the Staff Report details regarding assumptions not included in the LRFF.

Council Member Schmid believed the LRFF was a starting point for updating the Comprehensive Plan. Property tax was larger than any other tax source, grew faster than any other tax source, and was related to the documentary transfer tax. In FY 2013, 73 percent of property taxes was paid on residential property. Commercial growth was notably high; yet, over the prior four years the portion of property tax paid on residential property increased from 69 percent to 72 percent. He inquired whether Staff expected that trend to continue.

Joe Saccio, Assistant Director of Administrative Services, indicated it would be fair to assume that residential property paid a greater share of the burden. Under Proposition 13, quite a few commercial properties were owned by the same owners for decades. Staff saw a significantly higher turnover in residential property than in commercial property.

Council Member Schmid noted the portion of residents living in rental units continued to increase. The number of family trusts also increased. He assumed ownership in both those circumstances did not change when people moved into and out of those residences.

Mr. Saccio remarked that Staff did find a significant number of trusts when reviewing documentary transfer tax turnovers.

Council Member Schmid asked if the property was reassessed.

Mr. Saccio answered no.

Council Member Schmid felt residential property increasingly subsidized commercial development; however, the number of residential properties who funded the subsidy was decreasing. He inquired whether that should be a concern.

Lalo Perez, Director of Administrative Services/Chief Financial Officer, reported Staff acquired a consultant to help them study data. Over the last few years, Staff noticed a high number of residential remodeling and expansion projects and therefore reassessments. Staff was considering both sides of property tax trends. The supply of rental units was low while demand was high.

Council Member Schmid commented that the Council should consider those issues when updating the Comprehensive Plan. Land use and planning could exacerbate some of these fundamental trends. He requested Staff provide information from the consultant.

Mr. Perez planned to do so.

Council Member Scharff inquired about the difference between approving and accepting the LRFF.

Mr. Perez indicated accepting the LRFF was similar to accepting Audit reports.

Council Member Scharff recalled that the Finance Committee suggested changes to the LRFF but not to Audit reports. He wanted to know the meaning of the Council accepting versus approving the LRFF.

Mr. Perez concurred that Staff made changes based on Finance Committee discussions. Approximately four years ago, the Council directed Staff to rename the Long Range Financial Plan as the LRFF and indicated the Council would accept rather than approve it.

Council Member Scharff stated Council Member Klein obviously believed accept meant something different from approve.

Mr. Keene reported Staff was allowed to review a committee request to change an assumption and theoretically was not required to make the change. Staff would not be obligated to agree with a different forecast proposed by the Council. The Council should protect Staff's independence in preparing forecasts.

Council Member Scharff asked if Staff projected property tax increases and documentary transfer tax stability because of CAGR. It seemed documentary transfer taxes would increase along with property taxes.

Mr. Saccio indicated Staff applied the 20-year historical CAGR to both taxes. The documentary transfer tax was subject to the number of transactions and the mix of properties. Staff included a new base for the documentary transfer tax beginning in 2015 and reduced documentary transfer tax receipts slightly in FY 2016 as a more conservative approach.

Council Member Scharff requested Council Member Schmid restate his comments regarding the effect of family trusts on property taxes.

Council Member Schmid explained that an amendment to Proposition 13 indicated businesses were not treated as people as long as there was some continuity of ownership.

Council Member Scharff believed that was the reason for lack of turnover of commercial property.

Council Member Schmid added that each time residential property was sold, it was revalued. That revaluation did not occur for commercial property. In the instance of a family trust, there was not a revaluation of the property.

Mr. Keene remarked that property held in a family trust was reassessed when it was sold.

Council Member Scharff understood most people utilized family trusts to avoid probate and, thus, the trend was not as dire as Council Member Schmid indicated. He noted Palo Alto Unified School District's (PAUSD) forecast was wildly different from the City's LRFF.

Mr. Keene indicated that PAUSD had a larger base than the City. When growth occurred, it was much larger for PAUSD.

Mr. Perez added that PAUSD's actual growth figures were significantly different from its projections.

Mr. Saccio was surprised by PAUSD's use of 2 percent growth when it received the same information as the City.

Council Member Klein explained that if the Council approved the LRFF, then it would become Council policy. The Council then would have to review each line of the LRFF and consider implications of each item. The Council was not in the business of approving projections. He inquired about the basis for 8 percent annual growth of healthcare expenses given the City's agreement with the Service Employees International Union (SEIU).

Mr. Rossmann reported the annual growth had been approximately 10 percent over the past few years. The City traded the 8 percent growth for SEIU employees sharing in healthcare cost increases. Staff assumed a 4

percent City contribution. If the growth rate was above 4 percent, employees would have to pay additional costs.

Council Member Klein proposed a hypothetical scenario of a national 10 percent increase in medical expenses. Under the previous plan with SEIU, the City would pay 8 of the 10 points. The agreement with SEIU would give the City a more favorable split on the 10 percent increase than the 80/20 implied in the presentation.

Mr. Perez understood Council Member Klein was inquiring about the credit for that transaction. Staff prepared the LRFF prior to Council approval of the SEIU agreement and would adjust the LRFF with final numbers based on the SEIU agreement.

Council Member Klein added that the City assumed the same agreement could be made with other unions; however, the actual numbers were currently unknown.

Mr. Perez agreed.

Council Member Klein asked if Staff could utilize some estimates for the assumptions not contained in the LRFF as the lack of those numbers made the LRFF difficult to use effectively. He also asked if Staff had a rough estimate of the updated retiree healthcare plan actuarial valuation.

Mr. Perez would have an exact number in a few days. Staff would have some of the numbers soon and would provide that data with a notation of whether they were firm or an estimate.

Mr. Keene reported Staff could estimate the majority of the unknown amounts. As Staff received information, they would update the LRFF. Council decisions were also factored into the context of the overall LRFF.

Council Member Klein noted a few years previously Staff projected negatives balances to FY 2020.

Mr. Perez concurred.

Council Member Klein suggested the Council and the public view the LRFF with caution.

Mr. Keene did not place much confidence in the LRFF beyond two to three years.

Council Member Price suggested Staff provide a range for assumptions not included in the LRFF. She inquired whether Staff could provide more information if they delayed preparing and presenting the LRFF.

Mr. Rossmann preferred to report earlier because Staff would be preparing for Budget hearings. As part of preparing the Proposed Budget, Staff would update the LRFF with concrete numbers.

Council Member Price asked if Staff relied heavily on projections from the Santa Clara County (County) Tax Assessor to project property tax revenue.

Mr. Saccio indicated all information from the County Tax Assessor was incorporated into the forecast, because the County Tax Assessor met quarterly with jurisdictions to provide information. Staff attended the meetings, discussed information internally, and then revised data at the appropriate time.

Council Member Price inquired whether Staff considered demographic data in preparing property tax projections.

Mr. Perez replied yes. The consultant reviewed that level of detail.

Council Member Price noted a mini recession in the next five to six years was an assumption in the LRFF. Property tax appeared to be robust; yet, she tended to be cautious.

Mr. Perez suggested Staff include data from other communities for comparison. Palo Alto's circumstances in the previous recession were vastly different from circumstances in the County and nearby cities.

Council Member Price felt that illustrated the challenge of using county-wide data for projections of Palo Alto's circumstances.

MOTION: Council Member Berman moved, seconded by Council Member Burt to accept the Fiscal years 2015-2024 General Fund Long Range Financial Forecast.

Council Member Burt stated the Council would approve a plan but accept a prediction. There was a combination of reasons for the forecast moving from negative to positive. Staff was consistently moderately conservative in predictions. The economy improved. The City implemented significant reforms. The Council and the community should appreciate Staff's hard work to place the City on a sound financial footing.

Mr. Keene added that during the downturn the City was saddled with legacy costs. Staff made corrections, but costs continued to increase. A good economy created new demands on the expense side. Expenditure demands would be associated with rising revenues.

MOTION PASSED: 9-0

STATE/FEDERAL LEGISLATIVE DISCUSSION AND POTENTIAL ACTION

None

COUNCIL MEMBER QUESTIONS, COMMENTS AND ANNOUNCEMENTS

Council Member Burt reported the agency supported an appeal of the Regional Water Quality Control Board ruling, and the City transmitted the basis for the appeal. He encouraged everyone to read the responses and the appeal letter.

Mayor Shepherd attended a ribbon cutting at Lockheed Martin.

Council adjourned into the Closed Sessions at 10:18 P.M.

CLOSED SESSION

23. CONFERENCE WITH CITY ATTORNEY - EXISTING LITIGATION

- City of Palo Alto v. Regional Water Quality Control Board, San Francisco Bay Region: Petition for Review and Reconsideration of Failure to Act on Application for Section 401 Water Quality Certification of the City of Palo Alto Municipal Golf Course Reconfiguration Project, and Request to Hold Petition in Abeyance (petition filed April 1, 2014, before the California State Water Resources Board)
- Request for Reconsideration to the Regional Water Quality Control Board, San Francisco Bay Region (letter filed April 1, 2014)

Authority: Government Code section 54956.9

24. CONFERENCE WITH REAL PROPERTY NEGOTIATORS, CALIFORNIA GOVERNMENT CODE SECTION 54956.8

Property: U.S. Post Office, 380 Hamilton Avenue, Palo Alto 94301

Agency Negotiators: James Keene, Lalo Perez, Hamid Ghaemmaghami, Joe Saccio, Hillary Gitelman, Aaron Aknin, Meg Monroe, Molly Stump, Cara Silver

Negotiating Parties: City of Palo Alto and United States Post Office

Under Negotiation: Purchase and Lease-Back: Price and Terms of Payment

ADJOURNMENT: The meeting was adjourned at 12:10 A.M.

20 April 7, 2014